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ARNOLD H. MAREMONT

## The Dangers of Corporate Activity in Politics

*Individual participation in public affairs: the only safeguard against a new kind of machine politics*

As a business man with an active interest in politics I have learned, by experience, that political action carries its own rewards in the good men and good causes supported, without regard to the reward of office. This is true of any political party or action. Despite my deep personal concern with this issue, it is my conviction that business ought, for its own good, to stay out of politics.

I favor the widest possible participation in politics on an *individual* basis, for when it becomes the province of the elite few our system is in danger. It is when corporations begin running political classes, conducting political schools, and urging that their executives enter the political arena to expound the corporation viewpoint that I become deeply fearful of the consequences.

The contest over business's part in politics has been going on since Jeffer-

son and the Physiocrats rebelled against the Hamiltonian concept that politics and government should serve primarily the causes of business interests. In three distinct periods of our history, the Hamiltonian concept has held sway, and in each instance business wound up paying a heavy price for corporate political activity.

In the first period the Bank of the United States flourished, buying and bribing its way to influence and power over people. The Jacksonian revolt, which shattered the bank, produced the most profound shocks to the business community.

The second period followed the Civil War when the Jay Goulds, the Jim Fisks and other manipulators played high, wide, and handsome with the railroads, oil companies, banks, secret rebates, and political influence which extended into the White House. Ultimately, they got the Stockyards Act,

the Interstate Commerce Act, the Pujo investigation of the "money trust," the Sherman Act, the Clayton Anti-Trust Law, and Federal Reserve regulation of banking and credit.

The third period occurred after World War I when Warren G. Harding's "return to normalcy" ushered in an era of unconcern toward the social effects of excesses or breaches of trust in the business community. These excesses resulted in the Securities and Exchange Act, the Public Utilities Holding Company Act, creation of the Tennessee Valley Authority and the Rural Electrification Administration, strengthening of the Interstate Commerce laws, rewriting of the Railroad Act, and a host of other New Deal regulations of business.

With these events as background, it seems patently clear that this present campaign to inject business—as business—into politics is ill-conceived, extremely dangerous, a violation of our sound democratic system, and, even worse, perhaps illegal. These pressures are leading us not into the clear light of a congenial climate for business, but into a murky, grey area of potential catastrophe. The brief history which I have just cited should be adequate to warn business against becoming embroiled in politics again. The record is clear that business, in the long run, gains nothing.

### THE FUNCTION OF BUSINESS

Government exists to assure to the individual life, liberty and the pursuit of happiness: these terms mean safety of person, the traditional freedoms of speech and worship, equal opportunity, and more recently (since the passage

of Social Security and the Employment Act of 1946) a job while one can work, and security when one is old. On the other hand the corporation's responsibility is not primarily to all people; it must use wisely its investors' money, produce goods and earn a fair profit, treat its employees humanely and show a just concern for the general welfare.

The areas where the purposes of government and business coincide have been expanding, it is true; but wide gaps between them are still evident. For that reason, business frequently resists purposes and programs which political government has determined to be in the public interest. The business interest is often much narrower than the public interest. Business's viewpoint is directed to how a proposed program will affect the private profit interest. Its viewpoint is narrowed by its own immediate concerns. Therefore, in the past, business has fought against the enactment of the Pure Food and Drug Act; the Clayton Anti-Trust Act; the Tennessee Valley Authority; Social Security; the Public Utilities Holding Company and Securities and Exchange Acts; the minimum wage; workmen's compensation, public housing, federal power regulation, the reciprocal trade programs and many other public policies.

It would be interesting to speculate as to where we would be today if business's opposition to these public interest measures had prevailed. I venture the opinion that we could not function without them.

### The Legal Entity

The corporation is not a political entity, it is a legal entity. It was never intended to be a political entity. It is

wholly different from the human entity, which is the foundation stone of our Declaration of Independence and our Constitution. My reading of these documents—particularly Sections 8, 9, and 10 of Article I and all of the Amendments—does not find the word corporation once used. Corporations were vested with “personality” by a twist given to the language of the 14th Amendment by conservative majorities of the Supreme Court in their interpretation of the words “nor shall any State deprive any person of life, liberty, or property, without due process of law.” The Supreme Court, not the Constitution-makers, said that meant corporations, too.

### **The Marxist Implication**

Let us consider briefly the Marxist implications of business in politics. The materialistic ideology of Communism uses economic determinism to interpret all that is significant in life. With this philosophic base, its political framework, designedly, is totalitarian—as it must be in order to direct, shape, and control economic forces.

Those who would project the corporation into politics, I submit, are playing directly into the hands of economic determinism. Once you get the modern corporation, as such, hopelessly enmeshed in politics, you are well on the way to economic determinism. Inevitably, as in Russia, this leads to totalitarianism, the destruction of a free political heritage, prostitution of free citizenship and democratic principles. All of history testifies to this. For this reason, the separation of business—as business—from politics is as important to our political health as the separation of church from state.

In the Soviet Union economic determinism holds the factory and the factory worker, the collective farm and its operators in an iron grasp, with everything geared to the material benefit which the state may reap from the production of goods and money wealth. This system violates all moral concepts of total good and human values.

We shall fall into the same deterministic trap if we allow the projection of the corporation into politics. If this should happen, it would not be long until, as in Russia, we should all accept the word from on high, and discover that we had given a total negation to the concept that man is many personalities of which the business man is only one. It is extremely short-sighted, self-defeating and critically dangerous to encourage such a project.

### **CORPORATE POLITICAL ACTIVITY**

Why do corporations want to engage in political activity? One reason is that the hope of keeping government out of business is illusory, and therefore it becomes necessary to influence government for business. Another is the sometimes hysterically expressed need for a counter-force to the activities of labor in government.

The frenzied shouting over Welfare Statism, New Deal, Fair Deal, and other political slogans has drowned out even a whisper about the life-and-death decisions being resolved for all of us in Washington.

### **Questions for Management**

Those who would involve business institutions in politics need to answer several questions.

● Under the law it is well established that a corporation cannot do indirectly what it is forbidden to do directly. How then, being forbidden to contribute money to political campaigns, can a corporation legally permit its employees, on company time and paid by company funds, to act as polls watchers, vote-getters, precinct captains and such?

● If business, as business, gets into politics, how can it prevent the development of those very factions which Madison described in the great tenth Federalist Paper: "a landed interest, a manufacturing interest, a moneyed interest, with many lesser interests"? Who would settle the policy contests when all of these interests began their inevitable struggles for supremacy in government?

● If a business organization enters the political arena, who chooses the party which will be favored with its support? The directors, the shareholders, the chairman of the board? Where does it find authority to use shareholders' money for such purposes?

● Will not the employees who belong to different organizations, unions, or political parties develop a profound antagonism for the corporation's political activities? Seeing the officers use company funds and time for political action, will they not sharpen their own demands and opposition?

● What will be the effect upon the customers of the corporation who, in turn, are of many political persuasions and interests: property owners and renters, union members and white-collar workers, protagonists or antagonists of a myriad of contesting causes and ideas?

## POLITICAL EUNUCHISM

The American people will, with comparative equanimity, accept bigness in our corporations. A. A. Berle, in his Fund for the Republic study, *Economic Power and the Free Society*, reports that 50 percent of American manufacturing is held by 150 corporations; and two-thirds of the economically productive assets of the nation—excluding agriculture—are held by 500 corporations. Business firms have become so big that they "can be thought of only in somewhat the way we have heretofore thought of nations," Mr. Berle states. Most people are not greatly disturbed by this. But try to tell them that what is good for General Motors is good for the country, and you have a real row on your hands.

Is it inevitable that our heritage of democratic politics be lost while we give lip-service to it and perfect our manufacture of the organizational man? This man, as William H. Whyte, Jr. and David Riesman have shown in their studies, is not particularly suited to bold imagination, bold thinking, bold concepts of the public welfare, and mass cooperative action and leadership on the political stage.

George Romney of American Motors recently commented on this problem in strong language:

We have corporate executives and white-collar employees who have become political eunuchs and who have substituted corporate citizenship and the hope of economic advancement for their priceless heritage of independent political action.

Andrew Hacker of Cornell University, in his paper, "Politics and the Corporation" says:

The Corporation has certainly not set out to weaken the foundation of democratic politics,



but its growth as the characteristic institution of our time is having this consequence.

The Corporation Man, Mr. Hacker points out in his remarkable paper, ordinarily does not own property. He is highly mobile, shifting from one section of the country to another. He tends to substitute corporation virtue and corporation thinking for civic virtue and ardor. He is careful to do and say the things that will be found pleasing to his superiors and that will lead to his promotion. He will participate in such safe ventures as the American Red Cross and Community Fund drives, not necessarily because of personal zeal, but because "the company expects it."

It would be wrong to say merely that the middle-class corporation employee is afraid to join in [says Mr. Hacker]; it is rather that he has neither the interest nor the inclination to identify himself with politics.

... The middle-class, in divorcing itself from politics and in making itself dependent on the largesse of corporate institutions, has weakened itself immeasurably. If a crisis arises, even a relatively mild one, can we be sure that this group will continue to adhere to democratic values?

### Erasure of Personality

Parenthetically, it should be observed that studies of the new suburbia, where the organization man mostly resides, show, according to Hacker, that

the incidence of neurosis, the conflict in values, and the feeling of helplessness are endemic; a sense of isolation and powerlessness is having profound social and psychological effects on the members of the middle class.

These are not qualifications for successful participation in politics. Corporation thinking and corporation training destroy the very imaginative-

ness and bold action that are so often required in politics. Alan Harrington states in his book, *Life in the Crystal Palace*:

Once upon a time free enterprise invoked the principle of the survival of the fittest. Today at the Crystal Palace we have the survival (or rather the promotion) of the most imitative. . . .

In surveying his team, almost any executive is going to appraise it so that the men below who might challenge his method of doing things will be put in their proper places. . . . I suspect that most jobs in a corporation and elsewhere can be mastered in a few months, or at any rate in a year or two. What cannot be learned that quickly is the corporation minuet—the respectful dance with the right partners. The watchful corporation man gradually finds out who is important and who is not, what is acceptable and what is not, what type of project will advance his fortunes and what is not worth bothering about. Experience for him mainly adds up to learning how to behave. The secrets of gauging and responding to the power of others—superimposed on a normal intelligence—will move him slowly upward.

Authors Whyte and Riesman have drawn graphic pictures of the nature of the Corporation Man, the erasure of his personality, his avoidance of any semblance of controversy such as is the life of politics, his removal from the individuality, experimentation and non-conformity which is also the life of politics. Such men avoid that which may interpose elements of controversy between themselves and their superiors.

### Former Vice-President

Suppose that Company X is politically active through Raymond Jones, its first vice-president. Suppose Mr. Jones is, in due time, inspired with the public interest and wants to run for governor, not without excellent prospects of success. Suppose that he strongly believes in a better school

system, better teaching facilities, and more adequate pay for teachers. Suppose that he proposes to raise the money for better schools by increasing corporation franchise or profits taxes. What do you think will be the attitude of Company X? And if Mr. Jones persists, how long do you suppose he will be first vice-president of Company X?

The corporation executive is not going to make his political activity an area of controversy with his chiefs. What they decide to espouse may or may not be good for the company, or for the public interest, but they write his pay checks, and it is not up to him to bite the hand that wields the pen.

Is it necessary that we accept the corporation as our characteristic institution and develop a mold which shapes a pallid, faceless human of our middle class employee, substituting impersonal corporate interest for personal interest? I do not believe the problem is that desperate.

### Death Struggle?

I do not believe that labor and management are locked in a death struggle. Their concerns are, of necessity, different. Management is charged with maintaining maximum earnings, that portion which comes from sales and which is left after all costs are paid out of dollars which the consumer, the third party in the triangle, has spent. We business men seem to be doing very well under the competitive pressures, and the fact-finding and regulatory bodies set up to protect consumer, investor, and management. Labor is charged with getting the best deal it can on wages and working conditions.

Responsible union leaders do not argue that labor ought to engage in politics for the purpose of clobbering business. Conversely, anyone who argues that business must get into politics in order to take a fall out of labor is doing a distinct disservice to himself, his corporation, and his country.

### RIGHTS OF THE INDIVIDUAL

Our democratic system protects the individual's right to exercise his franchise freely and secretly. The emphasis is on the *human* rather than the legal being. We vote as men, not as employer, employee, father, homeowner, renter, or tax-payer. Classify us as you will, code us, punch us into cards, write us into impulses in Univac—we will emerge as human beings, enjoying and exercising our right to be different, which is the great force of life as remarked by Michel de Crevecoeur nearly two hundred years ago.

I agree completely with the statement of industrialist Thomas J. Watson:

All great questions of politics and economics come down in the last analysis to the decisions and actions of individual men and women. They are questions of human relations, and we ought always to think about them in terms of men and women—the individual human beings who are involved in them.

The modern corporation, equal in size and power to many of our states, as Berle has shown, is not set up to think or act in terms of individual men and women. In fact, it serves to repress and stifle individuality and other qualities that are essential in politics, as witness the findings of Whyte, Riesman and Harrington. A corporation is an amalgam of a great many personalities, divided into categories of importance, directed from the top by

persons who have prejudices as violent as you will meet anywhere. They are the ones who have set out to provoke, to stimulate, and to get going these campaigns to put business into politics. They are not men without judgment; they have a lot of judgment, and they know exactly what they are after. Let no one be deluded by the arguments they advance.

### Infliction of Views

As individuals, these men have every right—as does any employee—to harbor the opinion they cherish as citizens of a free democracy. They can be as enlightened or benighted as their nature and their minds permit, but they have absolutely no right to use corporation machinery, corporation money, and corporation personnel to inflict their views upon other individuals or upon the community.

Under our system, the one time when man is absolutely free is when he enters the polling booth; but he is *not* free if he is told by the corporation which employs him to go out and ring doorbells, make speeches, distribute literature and propagandize the corporation views. No company has the right to use its economic power and job influence to dragoon its members into political action.

The argument that corporations can conduct company classes in politics and public service without influencing the personal views of employees or executives is naive in concept, or it is simply not realized that such influence is as pervasive as the pressure of the atmosphere. Actually, the corporation is training the executive to teach the corporate viewpoint. The assertion that these courses are directed toward

“local politics”—that is, toward the aldermanic races and similar small-fry offices where party labels and ideological designations play no part—is false and misleading.

### Political Effectiveness

To be politically effective, an employee has to begin by affiliating with some party. There is no other way of doing the job. He then becomes the protagonist of the whole general ideology and orientation of his party. Party labels *do* mean something; they mean very much to the men who head the corporations. As Professor Stephen K. Bailey points out in his fine study, *The Condition of our National Political Parties*, there is a difference:

The Democratic party basically is a party of innovation, with a “pro-government” bias. The Republican party is an essentially consolidating party with a limited-government bias.

### THE CORPORATION AXE

The corporation employee who is projected into politics faces, quite often, the problem of submerging his own political convictions, because economically he cannot afford to be openly unsympathetic toward the policies and purposes of the corporation. When a corporation “teacher” asks his political class: “How did your Congressman vote on the right-to-work bill?” or “How did your Senator vote on Reciprocal Trade?” the so-called students will not be oblivious to the political implications and bias in such questions. No one should be misled as to any altruistic purpose in such classes. The corporation, as such, has no ideological desire to render selfless and perhaps sacrificial public service. *It has an axe to grind.*

That axe is the desire to advance the business ideology of the particular corporation by projecting the hired hands into political party action, after they have been sufficiently indoctrinated in the classes. Many companies have decided that what is wrong with the world is that their executives are inactive in politics, or, if active, do not identify themselves and propound the corporate viewpoint in party councils. They want to inject the views, prejudices, and opinions of management into political considerations.

### **Legitimate Means**

There are ample means of getting the business viewpoint across without entangling business, as business, in politics. There are the advertising pages and radio and television time which can be bought; there are such special service and special cause groups as the American Medical Association, United States Chamber of Commerce, Farm Bureau Federation, National Association of Manufacturers, AFL-CIO and a thousand others engaged in promoting and advancing special viewpoints and policies. Finally the editorial pages of most of our magazines and newspapers are generally sympathetic to the business viewpoint. I do not feel, as a business man, that I am foreclosed on all sides from getting the business viewpoint before the public.

If corporations want their executives to be trained in politics they should let the schools and colleges do that job. Why don't they take the funds they spend on company classes, turn them over to a college, and let the college teach political courses for executives? Most colleges would welcome the opportunity, but the corporations

run their own classes because they want to control what is taught.

If a company wants to encourage political participation, let it contribute to the American Heritage Foundation, a tax-free organization which is concerned with political education and getting out the vote. Many corporations do not take this course because they want to inject the corporation viewpoint into whatever political activity they undertake.

Such companies do not want free-handed, independent political action. They want their kind of political action. If an employee insists upon working politically and voting as a homeowner and father who believes in liberal policy, liberal aid to education, and taxes to support such programs, what chance does he have in a corporation whose top executives despise such programs? The only personality retained by the man who works for a large corporation is his political personality as a human being. And when you inject his employment into this totally personal area, you have destroyed his last vestige of personality.

For the most part, corporations are doing well. It seems to me they ought to be willing, politically, to let well enough alone. I have shown that on every occasion when business plunged into politics, it brought upon itself more government control and regulation. Already thrice-burned in such processes, business ought to be extremely wary of the current Get-Into-Politics campaign.

### **Outrageous Donations**

It is equally outrageous for corporations to establish foundations through which they dole out money as gifts to

universities and colleges. Such donations, in too many cases, represent an effort by the directors to insert their views and the corporation policies into the educational processes, where they do not belong. This procedure is bad in principle, bad for education, and bad for the company. There is now far too much corporation and government influence in education through the issuance of grants, donations, and research allowances.

How much better it would be if corporations turned over political education to colleges and universities and paid the costs for those who voluntarily attended the classes. It would be best if a central agency were established to which (and only to which) corporations might make educational donations. Such an agency would then pass the funds along to the colleges and universities that need them, without passing along at the same time a large dose of corporation influence and policy.

### **Invasion of Rights**

It is eyewash to contend that the political activities of the Chamber of Commerce or of a corporation are patriotic, democratic efforts on a non-partisan basis. No one believes this for one minute, least of all the executives themselves.

Company classes on company property, whether conducted by company executives or others, are a serious invasion of individual rights, and the invasion is even worse when it involves an employee's inviolable right to do and think politically as he pleases. The very fact that a person may decline to attend such classes is taken as an indication that he is out of sym-

pathy with corporation policy. And then the tab goes up on his personnel file and he is a "marked" man thereafter—the undependable maverick.

There is strong approval of my views among executives of many different corporations. I expressed such opinions recently at a meeting of the American Management Association in New York. Since then I have been overwhelmed with letters, 99 percent of which agreed with me. I have talked with many business executives up to the vice-presidential level, and always they say, "We agree with you a thousand percent, but we are not in a position to do anything about this in our company. We have to do as we are directed." This is the "survival of the imitative" that Harrington writes about.

### **NON-PARTISAN IRRESPONSIBILITY**

So-called non-partisanship in company policy is a fallacy. If there is no difference in the ideologies of the parties—if it is a case of Tweedle-dum and Tweedle-dee—then why all the shouting, the teaching, the corporate exertion for political action? I have a profound distrust of "non-partisanship" and it comes from personal experience. In Winnetka, Illinois, a part of Chicago's Suburbia, we turned village affairs over to the non-partisan village caucus and let the caucus pick our officers. We were going to let Big Brother do the job. Big Brother chose a group of village officers that promptly tried to give away the municipal light plant to the private utilities. We enjoined them in court and then beat them in an election in order to keep the plant. This is what you get when



you don't have democratic processes working through responsible political parties. Non-partisanship in too many cases is a synonym for irresponsibility.

If my views seem non-conformist, let me relate what the Republican National Chairman, Senator Thruston B. Morton of Kentucky, said recently in a panel discussion in which I took part. These are his words:

It would be disastrous for the Nation and for the Party itself if any single economic group were to win unchallenged control of the Republican Party. It would be equally disastrous if such a situation developed within the Democratic Party.

Paul Butler, the Democratic National Chairman, said that the individual business man who ignores politics "does so at his peril, for politics will most certainly not ignore him."

If you accept the premise that we are "all-around humans" then it follows that we are "political humans" seeking action through unity of ideals and spirit, not as business men, workers, scientists, or as categorized interests. Our responsibility, then, as persons who want to be useful members of society, is to recognize first that politics is power, second that as citizens who can direct that power to the development of the good society, we have a responsibility to help. Power is exercised responsibly through a political party, not through mobs or debating societies.

### Participation

We must participate as active, responsible, articulate individual citizens. It is not for us to judge from Olympian heights, nor to stand on the sidelines of political battles. The Greeks had a word for people who

avoided politics. The word was *idiot*. Why should you, as an individual, stand mute in political affairs? Why should it be necessary to get your corporation enmeshed in politics in order to give voice to your political views?

Long ago the French philosopher Jean Jacques Rousseau declared:

As soon as public service ceases to be the chief business of the citizens and they would rather serve with their money than with their persons, the State is not far from its fall. As soon as any man says of the affairs of the State, "What does it matter to me?" the State may be given up for lost.

I do not advocate the subordination of personal ideas or principles to a leader. If we are to be effective party members, we cannot be mutes: we must be heard in party councils. Here we can talk over things in common, and here we can learn that *I am not as good as you are—but you are as good as I am*. Disraeli, the youth, laughed at and ridiculed in his first speech in the House of Commons, uttered what should be the motto for all of us: "I will sit down now, but the time shall come when you will hear me."

The business man who chooses to become politically active must choose his party as an individual who wears no man's or corporation's collar. It must be *his* choice. Formalized corporate activity, it should be emphasized, is not conducive to spontaneous individual participation in political affairs.

The old-style machine politics is dying out: in 1958 the old line "pros" lost ground in most states, and even a great professional politician like Governor Lawrence of Pennsylvania could not carry his ticket with him. We have rid ourselves of the Hague Machine

in New Jersey, the Crump Machine in Tennessee, the Pendergast Machine in Missouri, and a host of lesser political machines in other areas. I believe that the worst course business can take is to conduct political action programs

which, inevitably, will lead to company machines not unlike those political machines which have passed into limbo. Ultimately, business will pay a heavy price for such corporate political activity.

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## FACULTY PUBLICATIONS

*Business Topics* here takes note of books published in 1959 by members of the faculty of the College of Business and Public Service, Michigan State University. The list is intended to be complete, but there may be inadvertent omissions.

- WALTER ADAMS, Professor of Economics, co-author with Professor John A. Garraty, Columbia University, *From Main Street to the Left Bank*. East Lansing: The Michigan State University Press, 1959. A report on the activities of American students and professors in Europe.
- GORDON J. ALDRIDGE, Director and Professor of Social Work, *Social Issues and Psychiatric Social Work Practice*. New York: National Association of Social Workers, 1959.
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MORDECHAI E. KREININ

## The Changing International Position of the Dollar

*Has our country's currency "weakened" in the past decade in comparison to the "strengthened" currencies of western Europe?*

In recent months concern has been growing in the financial press and elsewhere over the mounting deficit in the United States balance of payments.<sup>1</sup> The resulting drains on the American gold reserves and the accumulation of foreign liabilities have even made it fashionable to talk about the "weak" dollar relative to the "strong" (now partly convertible) currencies of western Europe.

In various quarters the American deficit has been attributed to the domestic inflation which is pricing our products out of world markets. That this explanation is entirely oversimplified is apparent from the fact that American prices have not been rising at a higher rate than European prices, and that the percentage increase in European wage rates during the current decade exceeded that in the United States. The question, therefore, arises: how can the recent de-

velopments be explained and what, if any, are their implications for American policy? It is to these questions that the following comments are directed.

### THE FACTS

In order to pinpoint the origin of the large outflow of gold in 1958-59, the accompanying table presents a condensed statement of the United States balance of payments. The upper section of the table shows what Americans paid abroad for imported goods and services (e.g. expenditures of American tourists abroad), and the outflow of American dollars in the form of government grants and private investments. The lower section shows receipts from foreigners for exported goods and services, and influx of foreign capital. After allowing for errors and omissions, we are still left

## UNITED STATES BALANCE OF PAYMENTS (\$ BILLIONS)

	1951	1953	1955	1957	1958	January-June 1959
<i>U. S. Payments, total</i>	19.8	19.6	21.9	27.4	27.0	13.7
Imports of merchandise	11.2	11.0	11.5	13.3	12.9	7.4
Imports of services	3.9	5.6	6.4	7.6	8.0	4.0
Outflow of private & gov't. capital	4.7	3.0	4.0	6.5	6.1	2.3
<i>U. S. Receipts, total</i>	18.4	17.2	20.8	27.1	23.2	11.4
Exports of merchandise	14.1	12.3	14.3	19.4	16.2	7.8
Exports of services	4.8	4.8	5.7	7.3	7.0	3.4
Inflow of foreign capital	-0.5	0.1	0.8	0.4	0.0	0.2
<i>Errors &amp; omissions (net receipts)</i>	0.5	0.3	0.4	0.8	0.4	0.4
<i>Increase in foreign holdings of gold and dollar assets</i>	0.9	2.1	0.7	-0.5	3.4	1.9

Sources: 1) Survey of Current Business, June and September, 1959.

2) U. S. Department of Commerce, Balance of Payments Statistical Supplement, 1958, p. 13.

with a certain imbalance—excess of payments over receipts or vice versa. In 1958 our receipts of \$23.6 billion fell considerably short of what we had to pay for imports plus what we decided to remit abroad in the form of private investments and government grants. Put differently, our excess of exports (\$23.2 billion) over imports (\$20.9 billion), amounting to \$2.3 billion, was insufficient to cover the \$6.1 billion outflow of private and government capital. This discrepancy can be made good in one of two forms: shipment of gold abroad or accumulation of dollar balances by foreigners; that is to say, we either pay in gold, or owe the money to foreigners. These are the “balancing items” in the balance of payments, which by its very nature must always be balanced.

Focusing attention on 1958, it appears that the major change taking place in that year was a \$3.2 billion drop in the export of merchandise. It was primarily this change which brought about the \$2.3 billion outflow

of gold and the \$1.1 billion accumulation of foreign balances in the United States.<sup>2</sup> Over 60 percent of the increase in foreign gold reserves accrued to western European nations. This process continued into the first half of 1959.

The table also shows that the loss of gold and the accumulation of dollar balances by foreigners are not new phenomena. The United States has been in over-all deficit with foreign countries in almost every year since 1949, as governmental grants and private investments abroad have substantially exceeded our net export surplus of goods and services. For the 1950-1958 period the annual average export surplus of goods and services has amounted to \$2.7 billion, against which government and private transfers came to \$4.9 billion. As a result, foreigners have been adding to their gold reserves at the rate of \$400 million and to their dollar balances at \$1.3 billion annually.<sup>3</sup> The proportion in which foreigners acquired gold and dollar

balances changed from year to year, and depended in part on American interest rates relative to those in Europe. In 1958, because of the low American rates, new claims on the dollar were converted into gold. But in most earlier years foreigners were willing to maintain a large share of their net earnings in the form of dollar balances, thus demonstrating unshaken confidence in the dollar.

What calls for an explanation, therefore, is the reversal in the United States balance of payments position from a net creditor in the interwar and immediate postwar period to that of a net debtor in the 1950's. Furthermore, it is necessary to account for the increased debtor position in 1958-59.

### INTERPRETATION

The increase in the American payments deficit in 1958 was due, to a significant extent, to short-run factors. While these factors may be expected to reverse themselves in the future, they do not account for the entire deficit during the current decade. They were merely superimposed on some basic underlying trends, and thus served to increase the deficit in the past year and a half.

The exceptionally large fall in exports in 1958 was due mainly to the disappearance of unusual circumstances that had prevailed in the previous 18 months. The Suez crisis of 1956-57 brought about an extraordinary but temporary rise in U. S. exports. As these circumstances disappeared, exports declined to their previous level. To quote the 1959 *Economic Report of the President*:

By far the greatest part of the recent decline in U. S. exports, as well as much of the sharp

rise immediately preceding it, is attributable to developments in a few products. Six major commodities<sup>4</sup> . . . accounted for most of the rise from the first half of 1956 to the first half of 1957 and for about three-fourths of the fall in the first half of 1958.

A second temporary factor was the increase in American import of European steel in anticipation of the steel strike. Finally, the slight lag of recovery in Europe as compared to that in the United States also contributed to the American deficit. The European low was reached in October, 1958, while ours appeared in April of that year. As a result our imports from Europe rose in response to increased income before their increased income raised their imports from us.

### Shift in U.S. Position

But these temporary factors do not tell the entire story. Two fundamental changes were taking place during the 1950's, underlying a basic shift in the United States' external position. The first change is the increasing interest of the American consumer in foreign products and of the American investor in foreign investments, best illustrated by the success story of foreign cars in the American market and by the increased flow of American capital to Europe. The second change is the narrowing technological gap between the United States and the rest of the world. Aided by the devaluation of many European currencies in 1949, this factor has helped restore the competitive ability of European industry. In recent years European producers have been extremely skillful in developing new products and new methods of production, and in adapting themselves to changing market conditions.

### The European Economic Community

Business attitudes toward the unification schemes in western Europe illustrate the "new European psychology." Of the three integration plans<sup>5</sup> now under active consideration, the most advanced plan and the one which calls for closest integration of its members (leading eventually to a political union) is that of the European Economic Community. The fact that this plan enjoys widespread support in the business circles of the six nations reflects the desire of producers to take advantage of mass markets and their readiness and ability to meet foreign competition.

Furthermore, industries within "The Six" are even applying pressure on their respective governments to speed the integration schedule. With the hope of facilitating better planning they wish to see the transition period reduced to the minimum of twelve years. But in the meantime they are not waiting idly until the abolition of intra-Community trade barriers will expose them to international competition. A gradual but far-reaching adjustment process is under way in anticipation of increased foreign trade.

### Adaptive Practices

Inside individual member countries small firms have been getting together to face the new competition.<sup>6</sup> Across national boundaries, but within the Community, a large number of financial, industrial, commercial and professional enterprises are negotiating agreements aimed at coordination and specialization in production, common sales organizations, exchange of technical know-how, and joint financing of industrial projects. Seventy-one such

agreements were listed in a recent study by the European Commission.<sup>7</sup> Trade associations within the six countries are negotiating reciprocal contacts in order to internationalize their activities.<sup>7a</sup> The sixty contacts negotiated so far range all the way from periodic informative meetings to regular super-associations. They may encompass the entire industrial sector (as does the "Union of Industries of the Common Market"), or relate to individual industries. Finally, European producers are successfully attracting American capital and technical know-how to help in the expansion process.<sup>8</sup> (American investors are attracted to the Common Market to take advantage of expanding markets and to circumvent the tariff wall.)

These practices demonstrate quick adaptation on the part of European business to the changing economic and political environment. It is such aggressive attitudes that helped European producers to rapidly gain ground over their American counterparts in products like electrical equipment and airplane engines. These fundamental trends cannot be expected to reverse themselves. If any measures should be taken to cope with the balance of payments deficit, they should be directed at these factors.

### IMPLICATIONS FOR U. S. POLICY

In examining the policy implications of the changes in our external position, it should be fully recognized that these are *welcomed developments*. The increase in European production and their improved ability to compete with the United States have been longstanding goals of American foreign

economic policy as symbolized by the slogan "trade, not aid." The resulting redistribution of gold and dollar reserves should consequently be regarded as highly satisfactory.

There is, therefore, no reason for panicky action, such as devaluation of the dollar or an increase in the price of gold. Our gold reserves, amounting to \$20 billion, are sufficient to meet any drains if private foreign holders of dollar balances choose to withdraw them. Likewise, it would be both erroneous and harmful to reverse the postwar trend toward a more liberal trade policy or to consider substantial cuts in our foreign aid program. Higher tariffs will merely contribute to inflation, while curtailment of foreign aid will interfere unnecessarily with our long-run political and economic objectives. Finally, there is no need to adopt strong deflationary policies in an attempt to curb imports. While it is important to restrain inflationary pressures, it is also essential not to inhibit economic growth and cause unemployment.

### Need for Stability

What is needed is certain minor changes in the United States and abroad which would recognize the new position of the dollar. In the future the United States cannot ignore, as it formerly could, the implications of its domestic policies for its international position. We are slowly becoming less of a closed economy, and more dependent on international trade. Any measures which raise internal prices and/or money income are likely to result in a deterioration of our external position. While measures to raise prices or money income are

usually taken for domestic reasons, their negative effect on our balance of payments should be carefully considered. It follows that prices and wages should be kept as stable as possible.

### Competition and Efficiency

Furthermore, efforts should be made to make our economy more competitive. Instead of perpetuating relatively inefficient industries such as watch movement, chinaware, fur-felt hats and bicycles by the use of protective tariffs, we should attempt to shift resources employed in them to mass production industries in which we have comparative advantage and which can compete effectively on world markets. Exposing our economy to foreign competition can provide the initial impetus in that direction. But the government can also play an important role in this process by inducing labor and capital to move away from relatively inefficient industries to those of maximum efficiency. It can initiate such programs as labor retraining, loans to firms and workers to help finance their relocation, research to develop opportunities in new lines of production, taxation incentives and information services.

Because of their increased income and improved reserve position, our European allies can and should assume a larger share of the burden of defense outlays and foreign aid.<sup>9</sup>

They should likewise be encouraged to remove discriminatory practices against imports from the United States.<sup>10</sup> In the past, such practices were justified by the shortage of gold and dollar reserves; but for most European nations this justification no longer exists.

These steps will be sufficient to restore equilibrium to the American balance of payments. They should be taken in recognition of the new, healthier, international position of the

dollar: that of the strongest among strong currencies, rather than the only strong currency in the world, as it was from the end of the war until recently.

#### Notes

1. See, for example, the article by Edwin Dale in the Financial section of the *New York Times* on October 4, 1959.

2. Figures derived from the *Federal Reserve Bulletin*, June 1959, pp. 670, 675.

3. The discrepancy resulting from the above four figures amounts to \$500 million. It is accounted for by the item "Errors and omissions."

4. Crude petroleum and selected fuels, coal and related fuels, cotton, wheat, iron and steel mill products and other metals and alloys, and automobiles and parts.

5. a) The European Economic Community, consisting of France, West Germany, Italy and Benelux; b) the Free Trade Area Association, consisting of Great Britain, Switzerland, Austria, Portugal, Denmark, Sweden and Norway; c) a Nordic Customs Union, composed of Finland, Sweden, Norway and Denmark.

6. The reorganization of the French textile industry, and a consortium set up by small engineering firms in Holland are examples of such developments.

7. Following are a few examples of such arrangements: Krupp and the French firm PIC have agreed on joint construction of complete installations for preparing coal. Renault and the Italian Alfa-Romeo have agreed to use each other's distribution networks and assemble each other's vehicles. Bayer has agreements with a number of French firms in various fields for joint technical cooperation. In the field of plastics, Montecatini Company, the Pechiney Company and the Société Normande de Matières Plastiques have signed a

licensing agreement involving the production of Moplen (polypropylene). In the banking field, there is an agreement between Banca Nazionale del Lavoro, I.M.I. and the French Banque de Paris et des Pays-Bas for the creation of a Franco-Italian Company for Industrial Development for the purpose of studying the financing of industrial projects in the Common Market and the overseas territories.

7a. Note that many of the agreements mentioned here would result in *less* rather than more competition within the Common Market. In part they reflect the difficulties in enforcing adequate rules of competition.

8. Again, a few cases will serve to illustrate the point: In Italy, a company jointly owned by American Machine and Foundry and the S.A.S.I.B. of Bologna has been created for the manufacture of machinery. There is a large plant of the Pfizer Corporation in Latina for the manufacture of biochemical products. RCA, Whirlpool and Tecumseh each have licensed their refrigerator compressors for production in Italy. In Belgium, National Lead has acquired a majority interest in the Société Chimique des Dérivés du Titane which has a plant in Langerbrugge for the production of dioxide of titanium. Black and Decker Manufacturing Company has set up a subsidiary for the manufacture of electrical appliances; Westinghouse International has entered into licensing agreements with Ateliers Electriques de Charleroi of Belgium. In France, the Budd Company has set up a subsidiary for the production of car accessories; United States Rubber has reached an agreement with the French Ugine



Company which involves the construction of a plant for the manufacture of special rubbers, latex and plastics under license by United States Rubber.

9. This fact has already been recognized by our European allies. The European Economic Community, for example, is currently de-

veloping a ten-year program of aid to underdeveloped countries. For discussion see "European Marshall Plan is Proposed," *Bulletin from the European Community*, August-September 1959.

10. Great Britain, for example, has recently abolished most of its import quotas.

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EDITOR'S NOTE: For a century-old editorial comment on international trade, see Page 43.

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1. J. Brooks Heckert, "Back to Distribution Costs," *The Journal of Accountancy*, June, 1945, p. 456.
  2. Editorial, "A Study in Distribution Costs," *The Journal of Accountancy*, January, 1946, p. 6.
  3. Paul W. Atwood, "The Manufacturer Looks at His Costs of Distribution," *The Accounting Review*, March, 1934, p. 28.
  4. James W. Culliton, "The Management Challenge of Marketing Costs," *The Harvard Business Review*, January, 1948, p. 81.
  5. J. Brooks Heckert, *The Analysis and Control of Distribution Costs*, Ronald Press, New York, 1940, pp. 15-17.
  6. William B. Castenholz, "Selling and Administrative Expense Analysis as a Basis for Sales Control and Cost Reduction," *The Accounting Review*, June, 1931, pp. 125-9.
  7. W. A. Paton and A. C. Littleton, *Introduction to Corporate Accounting Standards*, American Accounting Association, Chicago, 1940, p. 119.
  8. C. Rufus Rorem, "Differential Costs," *The Accounting Review*, December, 1928, p. 341.
  9. James W. Culliton, *op. cit.*, pp. 79-82.
  10. Paul G. Brown, "Analysis and Control of Distribution Costs," *The Journal of Accountancy*, September, 1948, p. 237.
  11. Donald R. Longman, *Distribution Cost Analysis*, Harper and Brothers Company, New York, 1941, p. 46.
  12. J. Brooks Heckert, *op. cit.*, p. 208.
  13. William B. Castenholz, *The Control of Distribution Costs and Sales*, Harper and Brothers Company, New York, 1930, pp. 151-61.
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SOLOMON BARKIN

# The Function of Management

- *Administration*
- *Bargaining*
- *Trusteeship*

Management attitudes, objectives, procedures and techniques are undergoing vast changes. Many forces are operating on management. The number of persons performing its functions has multiplied. The systematization of knowledge about the arts and sciences of management in the collegiate institutions has subjected it to the analysis of academic theorists. Many basic assumptions have been questioned, such as the reliance on the model of the economic man as the point of reference for policy determination. The nature of the public responsibilities of American business has received more and more attention as the business teaching institutions have begun to define their broader purpose of preparing leaders for the American economic community. The expanding influence and power of the business enterprise have prompted others to inquire into the soundness

of the present administrative and power structures.

To the latter the question is this: how can our economy best discharge its functions in view of the growing importance of the large, organized economic power centers? We can no longer rely on the impersonal free market. It is neither impersonal nor free where large economic units dominate it. Decisions are deliberate and purposeful. The results themselves may not be wholly in the public interest. They may produce inflation, retard growth, create autocracies, and cause waste. The question necessarily suggests itself: how can we best alter the structure of business government to continue our private decentralized economy and yet improve its effectiveness, assure a greater balance of power and promote public objectives and goals?

The issues are most pressing in the

fields of labor-management relations and business policy on prices, production and finance. We are weighed down by outmoded myths about management's position in both sectors. It is therefore timely for us to explore new approaches to these older problems.

### **THEORY OF A UNITARY AUTHORITY**

Managerial personnel philosophies and practices in this country rest on the belief in a managerial autocracy rather than an industrial democracy. In the literature on industrial organization and personnel direction, top management is recognized as *the ultimate source of decisions*. It may delegate power or decentralize areas of authority but it must not share this power. Two-way communications may replace one-way downward communication, with the orders coming from the uppermost echelons. But there is no other source of authority than top management.

The origin of this concept is easy to identify. It derives from the premise that the right to give orders within the business enterprise originates with ownership. To eliminate all doubts about the legitimacy of this concept of unitary power, management has from the earliest days of the current era of collective bargaining insisted upon contract clauses preserving its "management prerogatives." These are carefully spelled out in contracts. Management constantly urges the public and arbitrators to support its rights which they argue are essential to the preservation of private enterprise and to economic efficiency and progress.

### **Place of the Union**

This system of unitary power pervades all thinking in management circles. It permits no real place for the trade union. Actually, unions are visualized as outside the plant and business society. Employers who have acquiesced in collective bargaining have done so without integrating it into their logic system. This continuing failure to provide an adequate formally-acknowledged positive function for trade unions in our industrial organization is an unending source of strife. It explains the prevailing dichotomy of employers maintaining "satisfactory" union-management relations in their plants and yet leading or contributing financially to outspoken anti-union agencies and biding their time until unions are destroyed.

### **"Accommodation of Interests"**

So long as this attitude prevails, it is understandable that anti-unionism will remain the dominant tone of industrial opinion. The union and collective bargaining process are foreign to these managements. Where economic pressures force acceptance of unions, employers begrudgingly acquiesce in their continued existence. Some of them retreat to the theory of local management autonomy and responsibility for labor-management relations to justify resistance if not outright opposition to unions. In any event they try to make the best of a poor bargain; they adjust themselves to an uneasy truce. This is now called "accommodation of interests." It is a form of coexistence for which employers have hardly developed an adequate rationalization. A cold war between employer and union often prevails as

the competitive struggle continues.

No significant effort has been made by management in this country to come to terms with the challenge of evolving a system of coordinate industrial authority. Examples of "constructive labor-management relations" are isolated. While we lack this alternative the brutal conflict over authority continues; large, costly strikes are our principal method of resolving differences on economic policy in our private economy short of government intervention. An uneasiness persists about the future of our industrial system. This study will not deal with the types of national consultation of economic interests needed to supplement corporate agencies.

### TERMS FOR CONDUCT

The facts of life have progressed far beyond management's theories and myths. The powers of ownership have been severely limited and their choices have been restricted. More important for the long run, the very objectives of the business enterprise have been broadened. As a result, the goals considered in the decision-making process have changed. Short-term profit stands alongside of such other objectives as business growth, technological and managerial progressiveness and the perpetuation of the enterprise itself.

*The government is now an important force in shaping business decisions.* General laws, special regulations and systems of penalties and incentives developed by government affect policies and conduct. They reach into the most abstract areas of business policy

such as the type of product, the channels of merchandising, commercial practices, labor relations, methods of financing, costs of money, size of the market and stability of demand.

*Voluntary codes and rules have also of course been developed formally and informally within the business community itself.* The former are prescribed for and the latter are agreed to or accepted by the business enterprise. American management leaders have done much to elaborate and formalize the nature of the public responsibilities of business and to pressure individual business concerns to pay some heed to them in their public presentation. The image of a beneficent business enterprise is seriously promoted in this country.

*The theory of unitary power has been most directly challenged by the collective bargaining process.* In the old craft industries such as printing and building, working rules are developed unilaterally by the union and enforced by its economic power. Elsewhere they are developed jointly in the collective agreement through the balance of economic power.

The two power centers, each seeking to control the policy-making functions, are brought together through the contract. The contest is a continuing one, though friction is minimized and channelized for the period of the agreement. During its term differences are likely to be resolved through arbitration in most cases enforceable in the courts.

Collective bargaining, though enjoying an uneasy place within management's logic system and organization structure, is well-established as an American institution. It prevails over

a wide industrial base in private industry. Public authorities and even non-profit institutions are gradually accepting the collective bargaining pattern as necessary to a democratic society. Decisions and policies affecting employees are being formally developed with their spokesmen. As the area covered by negotiated agreements broadens, management in these fields, public and quasi-public, will, like those in private industry, have to face up to the full implications of this coordinate power center. A new theory of managerial responsibility will have to encompass these sectors as well as private industry.

Labor agreements set forth a growing variety of terms of employment and instruct management on methods, rules and principles of performance which limit its choices. They have also added new goals to govern the enterprise. Fundamentally they belie the theory of the unitary source of power in the enterprise; the authority is shared by management with the union.

The areas of business operation governed by the collective agreement vary in scope. The subjects of control depend upon the relative power of management and union, labor's interests in a particular economic area and, significantly, the industry's or management's effectiveness in meeting business problems. Where the industry or business is not satisfying the prevailing economic expectations among workers, unions are apt to seek to extend the areas of business practice regulated by the agreement. Moreover, where business troubles stem from a chaotic business organization within an industry, unions will

be particularly prone to fight for industry-wide bargaining and contracts. Collective agreements in various areas now intimately govern business practices such as manufacturer-contractor relationships, sub-contracting practices, the allocation of work among shops, numbers of shifts, hours of operation, use of employee inventions, and other details.

### Unwritten Agreements

Such intimate limitations on employer rights did not originate with the signing of the union contract. Working agreements, understandings and arrangements on the work-floor existed from the earliest days of the industrial system. They were, in fact, often unilaterally imposed by workers, with neither the formal nor informal consent of management. In recent years these agreements often have taken the form of verbal pacts between the shop steward and the foreman to assure mutual cooperation on the production floor. They are actually vital to an effective operating organization, but their prevalence has been inadequately reported and their influence is hardly appreciated. Only intimate study of the unwritten and informal laws of the specific plant will bring them to light and assign them the importance they deserve. Their existence is often unknown to the front office and is revealed primarily when formal, plant-wide rules or contracts cross these local practices and codes. Since they do not fall readily into the neat theories of a unitary source of authority, management has frequently denied their very existence. But they are as real as the informal chains of command which make

a mockery of formal organization charts. Management has found workers and unions defending these unwritten laws even more intensely than the "official" contract provisions. Many of the so-called work rules developed out of these understandings.

### New Standards

Collective bargaining has contributed substantially to the formulation of new enterprise goals, to progressive technology and management, and to perpetuity and growth. Unions also seek to enforce a number of new standards upon management which vitally affect the business enterprise and are designed to advance employee interests. First is the maintenance of a high level of rising productivity with which to finance the annual productivity wage factor. Second is stabilized employment to reduce the cost of supplementary unemployment benefits. Third is the transfer of personal costs of employees to the business system through the fringe benefit program. Fourth is the orderly introduction of technological changes to minimize displacement of employees. Fifth is a hiring policy which opens up employment to a cross-section of the community including members of minority and disfranchised groups. Finally, unions promote the acceptance of a number of principles in wage and benefit policy, such as the maintenance of real earnings through cost-of-living adjustments, the elimination of class differences in types of benefits among employees and the eradication of substandard wages and working conditions and conformance to industry standards.

These developments flowing from governmental action, voluntary busi-

ness codes and collective bargaining point forcefully to the need of overhauling the theory of unitary power as a rationalization for management's position. But the urgency of such a reorganization is even more strongly impressed upon us when we take cognizance of the major changes in the corporate structure itself.

### CHANGES IN STRUCTURE

We have become increasingly aware of the great separation between ownership and management. The latter no longer owns the business enterprise. This fact is clearly exemplified in the large, publicly owned corporation. Frequently the managements own no stock in their enterprise or have acquired such an interest only through an attractive and lucrative stock option program.

The stewards of fortunes have become independent of the purses which placed them in their seats of power. They are ideologically and politically allied with the owners but have in fact become separated from them. They have inherited or usurped power over vast fortunes by virtue of their possession of political rights within the corporations rather than through any rights of ownership. Only a facade of delegation of power by stockholders thinly hides this arrogation.

### The Role of Ownership

The divergence between ownership and management has become so marked that management, in this day and age, can be said actually to be hiring capital. It invites investment on the basis of confidence in its ability to produce certain returns and long-term growth in basic corporate



values. Those who invest speculate on the management and its effectiveness. The role of ownership is relatively insignificant. At best, the stockholder can join minority movements or unite with speculators intent on exploiting the adversities of a corporation. Otherwise, the stockholder is kept inadequately informed, has purely nominal rights of inquiry, is too dispersed to organize and lacks resources or an agency for checking management's performance. Management is increasingly becoming a self-perpetuating oligarchy, maintaining power by its possession of it and by skillful manipulation of the corporate organizations in relation to management persons similarly situated in other large corporations.

#### **No Checks on Management**

No group is now charged fully with the authority, or granted the facilities or responsibility, to check on management and its performance. Modern American corporate management can devise policies on operations, products development, investment, prices and levels of operations according to its judgment with relatively little interference. Many question the wisdom of its pricing policies but there is no way to review or challenge them, except possibly through the government. Certainly the open market has lost its ability intimately and precisely to influence corporate decisions in those economic sectors where a few large businesses dominate the field. With modern management insisting on financing its own capital expenditures, the capital market is not in a position to pass judgment on its course. The financial community might have de-

termined that expansion of the automobile industry in 1956-57 was a poor risk but the capital market had no opportunity to stop it. Management relied almost exclusively on its own funds.

The managerial oligarchy has developed into an autocracy quite independent of the outside world. Competition affects its behavior only very incidentally and only at the outer limits of a broad range of choices. Competition from similar products is usually limited to a handful of companies. Most of them follow comparable competitive policies and avoid price-cutting. The major contest involves the originality and skill of their respective advertising agencies.

#### **Abuses of Power**

The evidence of this power is most poignantly illustrated by the performance of men who have abused this position and subverted the institution to their own personal interests with complete immunity, since their stewardship cannot truly be tested. Instead of serving the enterprise, they have made the business promote their interests. They have submerged the concept of service and identified the enterprise with their own personal interests, as if the publicly-owned corporation were truly a private business.

A recent illustration of this development is provided by two presidents and the directors of the American Woolen Company. The prime goals of the presidents were simple—to assure themselves adequate salaries and retirement benefits. The last president also arranged personal deals for his own enrichment; the bonding company

later had to repay the corporation substantial sums, running into six figures. Finally, having achieved the desired goal, the directors arranged to sell the corporation to an outside interest which liquidated it. The directors and the purchasers were the true beneficiaries of this transaction.

Many current illustrations may be offered of speculators who have cannibalized corporations in their drive to create personal financial empires. Some of these corporations collapsed, destroying sound ventures. Others continue in existence through their success in manipulating the finances of a motley assortment of enterprises assembled under the old corporate title.

Finally, the practice of granting stock options to corporation executives tends to focus their interest upon boosting the price of the stock rather than conducting a sound business. Policies which may depress stock prices—such as a cut in the selling price of the commodity produced—are rejected. Some analysts have seen this motivation in the 1959 steel strike. In their view, strike talk by steel management encouraged other industries to build up steel inventories, inducing abnormal pre-strike demand, record earnings and thus higher stock prices. Then, by holding off a settlement until these inventories were depleted, management hoped for another abnormal surge in demand, earnings and stock prices.

The concentration of authority in management, as outlined above, is a solid reality built upon a rickety foundation. It is easy to see how it arose naturally—and perhaps inevitably—from the revolution in our industrial

structure, which eliminated the old alternative of owner-management. But while this authority is asserted today in the name of ownership, it has no genuine basis in ownership.

### Need for Re-evaluation

Our primary concern is that management has developed a unique position of authority which is subject to few immediate checks or even periodic review by the people who have a stake in the corporation. This authority rests on a theory of ownership which does not square with the facts. Despite these developments, few men of business are wrestling with the challenge of finding a method of choosing industrial leadership which will assure dedication to the enterprise as a whole and a procedure for providing a full and continuing audit and review of management's performance. At this time when big business is occupying an increasingly critical role in our society, its leaders and theorists have hardly dealt with this important aspect of the responsible public corporation.

The unitary authority is, moreover, exercised rather peremptorily within the organization. The management prescribes rules of conduct and policies for all. There is no assurance that it will consider new ideas, values or programs. No matter what the opinions may be, or what evidence may be submitted, management continues to use this authority according to its own will.

Recent movements for decentralization or the use of middle management are only variants on the concentration of authority. They permit the lower

echelons broader rights of recommendation or areas of discretion, but the delegation is temporary and subject to review. The real controls remain with top management.

As we have seen, the established rationalization for management's power—i.e., that it represents ownership—is no longer in accordance with the facts, and is shaken even in theory when the power is abused for the personal gain of those who wield it. The further supposition that boards of directors can be relied upon to check management's performance also collapses under scrutiny. The directors of large public corporations often consist of persons chosen by management or closely allied with it. In any event, the directors' primary concern frequently goes little further than the immediate interests of the stockholders. Few have the independence, the facilities or the competence to develop adequate criteria of management performance in the broader terms of the interests of the public, the general business community, labor and the like. In sum, the present government of big business enterprise needs reevaluation from a new approach that coincides with the realities of the power centers and the public interest in the enterprise itself.

#### THE TRUSTEE OF INTERESTS

Management's authority rests on a minority claim of ownership, and its political power is established through appeals for proxies among a widely dispersed stockholder class, which is often inadequately informed about the corporation's policies and performance except as gleaned from the management's financial statements. If this

state of affairs is unsatisfactory and should be revised, consideration must also be given in any new appraisal of alternatives to other developments in the nature of the enterprise and its objectives, which might influence the ultimate form of corporate organization.

- Annual profits, as now calculated, are in themselves no longer an adequate criterion of performance. Even so management-oriented a writer as Peter Drucker has emphasized this conclusion. There are other criteria for good performance than high profits. These are often prescribed by the community. High profits which result from inordinately high prices and monopolistic practices are adverse to the public interest. Business enterprises which do not share the benefits of their efficiencies with either labor or the community, or with both, are exploiting their monopolistic positions.

- The enterprise is truly a public economic institution, employing scarce human capital and natural resources. It must use them as efficiently as possible, consistent with the requirements of a competitive open-price market system. They must also be employed in a manner to preserve the quality of these resources, as in the case of labor and natural resources, and promote their interests, as in the case of labor. Management's responsibility, therefore, is to satisfy these economic criteria. Profits made at the expense of our resources violate the nation's interests and are improper and unconscionable.

- Management carries the important responsibility of helping the



government implement its declared national policy of "promoting maximum employment, production and purchasing power."

- Management bargains with sellers or owners of labor and natural resources. It must bargain with them in the light of other enterprise goals such as profits, the perpetuation of the enterprise and its growth, bearing in mind public goals such as conservation of resources, high levels of income distribution and greater efficiency. The more fully these goals are translated into specific costs, the easier it is for management to take account of them.

In performing its current coordinating function, management is bargaining with the factors of production. The owners of these resources represent themselves in such negotiations with management. They seek terms on the price and methods of utilization to advance their interests and to assure the operation of the enterprise according to their own views. Management must bargain with them in terms of the goals and well-being of the enterprise.

The prevailing theory of unitary authority is at odds with these facts of our evolving society. First, the source of that authority is uncertain. Second, management does not operate freely according to its own notions of freedom. Its rules and standards for performance are prescribed by law, custom and countervailing economic powers. Criteria for successful business achievement are the product of many forces and are constantly changing. Profit at the expense of the community is decried. Resources must not be abused. Public economic objectives must be advanced. Moreover, manage-

ment must negotiate or bargain with the factors of production. It coordinates the use of resources and employs them on terms prescribed in the bargain or contract; the products or services are sold on terms developed with the buyer.

Management, therefore, administers a system of negotiations with suppliers of materials and services on the one hand, and buyers of products or services on the other. In so doing it must seek to advance not merely its own interests but the interests of the other factors in the enterprise — investors, employees and the enterprise itself. It is the trustee of these three interests.

Moreover, in achieving its present size and economic importance, the large public corporation has acquired public responsibilities. As management has become an entity in itself, replacing the owner-management of the previous era, it has fallen heir to these responsibilities as well. It must not only promote the interests of all factors in the enterprise, but must reconcile them with the public interest.

### UNREALISTIC PRACTICES

This description of the reality of our business society suggests why the current "human relations" personnel practices are essentially unrealistic. They are designed to woo the employee to accept management's logic and values. They assume the existence of a unitary authority. To advance one group in the enterprise the interests of the others are to be subverted.

The "human relations" school of personnel policy recognizes the existence of an independent logic and value system among each group of em-

ployees. Having posited this proposition, it sets for itself the task of developing techniques for getting employees to accept or acquiesce in top management values and to subordinate or submerge their own. Its ultimate aim has been to make management's views of the enterprise and its goals dominant and pervasive. To this end, hiring, discharge and layoff policies, personnel counselling, communications and group participation practices have been employed. But they have been effective only where the employer's fiat was reinforced with the power to discharge, and to penalize without adequate recourse or defense by the employee. In such cases the sophisticated procedures are actually unnecessary to the attainment of the goal. They simply clothe sheer economic power with a superficial appearance of humaneness. In strongly-organized plants these techniques serve primarily for routine production directions and to present management's point of view on issues where it differs from those held by the union.

What has interfered with the operating effectiveness of these tools is their failure to make a place for the continued existence of independent views and logic systems. Their objective is to submerge employee attitudes and subordinate employee logics to management's. They do not accept the conclusion that this goal is neither legitimate or achievable. Outside groups are eyed suspiciously, and unions are condemned if they appear to be interfering or expressing independent concepts. The proponents of this personnel philosophy cannot make peace with the existence of these independent groups.

But each factor of production continues to bargain independently. They continue to organize themselves better to negotiate for their price or protect their views of the enterprise. Creditors do so, as do suppliers of capital, and so do workers. In internal management battles, the respective sides attempt to justify their views as those which best conform to the interests of the enterprise or the investors or the specific group to whom they appeal.

### **The Union's Response**

Obviously, unions confronted by a management which presses its views strongly are likely to respond in kind. They will carry on propaganda campaigns to counterbalance management's offensive. Their efforts may be executed through the grapevine, union meeting, printed word or some other way. In any event, unions will insist on being heard. Moreover, they are likely to carry a predominant weight among organized workers.

Quite independently of the substantive differences in values, unions have objected to the use of manipulative techniques. They have insisted upon real discussion between the parties on all issues — not merely forward communication, but two-way communication, free exchange with both workers and unions enjoying the same right as management to initiate proposals. And, most important, in this system differences are settled through negotiations, arbitration or economic contest.

The efforts to develop special ties which accent enterprise identity have lost much of their significance with the wide extension of worker benefits

throughout the industrial system. Moreover, workers commonly resent management's intrusion into their personal lives and attempts to foster excessive identification with the enterprise. The separation of job from personal life is an important part of the scheme of current American values.

### Obsolete Policies

This entire "human relations" program has also been criticized as being at variance with the spirit in which American management must conduct itself. Basically, public support for the Labor Relations Act is derived from the belief that autocracy must not prevail in industry and that a fair bargaining relationship should be created by labor and management. Obviously, forceful imposition or manipulative persuasion are not consonant with these views. Therefore the prevailing public attitude has questioned these techniques as not truly helping to develop a meeting of the minds.

Since the "human relations" personnel policy is obsolete and most frequently unstable in a free environment, the grave question is what relationship shall exist between top management and the worker. Individual bargains are inadequate except in the case of a completely tight labor market where individuals can effectively use mobility as a bargaining leverage. And they leave a structural void. Management's unitary policies will be erratic as they cannot be checked or subjected to review. They are only stable if they are formalized through agreements between employee and employer. Collective bargaining, therefore, is essential to stable relations.

The advantage of collective bargaining and the agreements flowing from it is that it spells out the understanding reached in the power play of interest groups in the enterprise. But management prefers to avoid this procedure as necessarily limiting its range of choice. Yet this development is inevitable in a free society in which management bargains with the factors of production and as trustee has the responsibility for promoting the interests of all groups within the enterprise. Under this concept, it is untenable for it to continue to try to impose its unitary views of authority. The human relations philosophy and its associated practices are plainly out of date.

### LABOR'S RESPONSIBILITY

Upon rejecting the concept of the subservience of all groups to management's system of values, the question necessarily arises as to what should be the employee's relationship to management. Actually the view of top management as being the bargainer and coordinator of the factors of production and the trustee of the interests of the participating groups within the enterprise helps provide the answer.

### Contract

Workers have a coordinate interest in the enterprise with capital and management. They must be ready to serve faithfully and diligently in the enterprise on terms which help realize their personal goals and expectations. These should be spelled out in a collective agreement so that the respective obligations, duties and terms are clear-

ly understood by all the parties. The agreement, moreover, is an instrument for the progressive realization of new methods of working together so that the parties may ultimately fashion the new evolving corporate instrument. The negotiated contract is the law of the enterprise during its term. It performs the additional function of sanctioning the exercise of managerial authority and the existing allocation of decision-making authority, thereby reinforcing the effectiveness of management's supervisory decisions.

The contract also makes the employee himself aware of the nature of his responsibilities. Having agreed to a contract, he is then obliged to perform his tasks and responsibilities according to the standards laid out in the contract, or according to management's directions insofar as they are directly or indirectly elaborated in the contract. Employee obligations are, as never before, carefully set forth.

### Constitution

This approach has the further advantage of pointing up the need, not only for a constitution regulating the relationships between the investor and the management and one between the enterprise and management with the employees, but also for one controlling the terms established and agreed upon between management and the respective internal groups, such as capital and employees, as regards to its own performance. This function is generally only feebly performed by the current boards of directors. There must be a clear set of terms which limits the authority of management to despoil the enterprise and exploit it for its own self-interest. The new

management class must be bound by an agreement defining its responsibilities and obligations as well as its rewards.

### UNION OBJECTIVES

The fundamental union function is to represent employees as negotiator for the terms of employment and to prescribe guides for management performance in such other areas as the union feels are necessary at any given time. Ultimately the union shares in the obligation to help supervise management's own performance. In discharging these functions unions apply concepts of the manner in which the enterprise should reimburse employees and the benefits they should enjoy. These concepts are derived both from the broad aspirations common within the society and those held by employees in a specific enterprise. In negotiations, management undertakes to orient the union representatives in the economics of the specific enterprise.

The second major union desire is to get the enterprise to follow economic, financial, production and political policies which would tend to bring about the type of society in which employees would like to live. True enough, the latter objectives are not always clearly evident in the demands, but they are inherent in them. Except in periods of crisis they may be subordinated or dormant. But the fact that trade union leaders turn to them recurrently, particularly in periods of stress, is evidence of their continued existence.

### Job Consciousness

No matter how much American unionism has been characterized as

"job conscious" and has focused on direct economic gains, one cannot overlook the movement's roots. These are to be found in employee expectations of management and society. During periods of relative high employment and continued economic advances, the mass of the membership raises no serious social and economic questions. But as recessions and economic dislocations become apparent, more doubts arise and questions begin to be asked concerning management's performance. It is then that workers and unions reach back to their visions of society and seek to effect greater and quicker conformance to them.

"Job consciousness" may seem to be an adequate description of unions restricted to local service industries or crafts within limited labor markets. But it is hardly applicable to industrial unionism which must demand the maintenance of full employment and continuing improvement in workers' standards to realize members' aspirations.

### **Labor Standards**

Modern unions are therefore "national-economy conscious." They look toward the creation of a national economy, both through collective bargaining and political activity, which continues to assure full employment, economic growth, rising living standards, income stability, job security and individual opportunity. Their effectiveness as bargaining agents depends on realizing these ends.

These views are applied at the enterprise level as pointedly as they are in legislative programs. They are reflected in the specific contractual demands

made on the enterprise. They are rooted in the broad visions of society held by the people rather than derived exclusively from the conditions formed in the specific work-place. Workers and unions seek to make the individual enterprise conform as nearly as possible to the employee feelings about how the society and economy should operate.

These standards vary among unions and negotiators. The union movement does not prescribe a specific, uniform policy. The amount of pressure on any one issue at any one place depends upon the degree of permeation of the ideas among the membership through oral and written communication. But the impressive fact is that these views pervade the union world; they flow from a common fount of objectives. The demands made on employers are relatively uniform.

The labor standards envisaged in this concept may be summarized as continued annual improvements in wages and maintenance of wage levels through cost-of-living adjustment; absorption of the costs of unemployment, sickness, disability, old age and death; maintenance of annual employment or, at least, income; adequate rest and leisure through vacations, sabbaticals and shorter hours; a fair employment policy, which means jobs to all groups in the community including the handicapped; a structure of equities and rules for transfer, promotions and layoffs which protect long service and eliminate discrimination; and, finally, a grievance system which assures compliance with the agreement as well as opportunity to seek correction of practices considered undesirable by employees.



### **Labor's Code for Management**

There are other sectors in the union's code for proper management performance. In the field of economic policy, unions have expressed themselves as opposed to current pricing policies which permit companies to finance much or all of their expansion from internal funds. They have insisted that the business enterprise be so operated as to assure continued existence, growth and technical progress. The worker desires security for his job in a competitive society; the continued disputes about the procedures and manner of change as they affect individual workers are part of the adjustment to this changing economy.

A full labor code for management's performance embraces most aspects of management operation. Unions have voiced criticisms of managements which have not been enterprising; which have set excessive prices and refused to reduce prices; which have failed to maintain technical progress and have overspeculated in the construction of new capacity; and of a banking system which has hoisted interest rates. Wherever sorespots develop the unions demand correction of managerial and economic policies and practices. They are the social and economic conscience of the community as reflected in the employee's experience.

### **TWO-WAY COMMUNICATION**

The above concept of the current business enterprise and the relation of the employee and the union within it calls for significant changes in the nature of industrial relations policies

as well as corporate organization itself. Management must give up its continuous and repeated drives against unions. It must accept collective bargaining as a way of business life. Unions cannot be restricted solely to production and manual workers. Collective bargaining must be the relationship for all employees.

Personnel activity must be limited to that of acquainting the employee with his responsibilities within the enterprise and teaching him to fulfill his job competently. Efforts spent on indoctrination on the superiority of management's value systems are wasted and pointless, a cause of irritation and evidence of antagonism to unionism and collective bargaining itself.

### **Consultation**

Clarification of the economics of the enterprise should be sought through the collective bargaining process. This naturally follows from a mature view of collective bargaining. Management as trustee of all interests should consult with employees, including the production workers, on all policies which affect the destiny of the individual plant or the enterprise. There must be two-way communication not only on problems of employment but on all policies. Unions' and employees' views must be known to management. While the top management continues to bargain with all, it must be prepared to share its reasoning with all. It is through this continued interchange that real concern will develop for the economics of the enterprise. Certainly employees are not likely to be aroused or concerned if the appeals for understanding are made only by management in times of crisis.

Management policy and practice must be a constant subject of review by all groups within the enterprise. It is in this way that real accommodation will become established. Through such exchanges, problems of an immediate and long-term nature will be considered and the experience and views of all groups applied. Through such orientation with administrative policies and problems identification with the enterprise is improved. From such identification flows motivation to cooperate with the management.

Unions, however, cannot limit themselves to discussions merely at the enterprise or company level. They will seek to develop relations with management on an industry and total economy basis. Only in this way can the union participate fully and responsibly in our society. Its inherent drive is to realize its objectives through plant, industry and national channels. Industrial management must accept this fact and formulate its policies accordingly.

#### **Advisory Enterprise Council**

One internal check on management's policies is provided by trade unions, particularly where they are all-embracing and represent all employees. The boards of directors exercise varying degrees of surveillance over the enterprise and particularly concern themselves with investor and lender interests. They are assumed to be intimately familiar and jointly responsible with management for policy. They are therefore not independent auditors of performance. The accountant renders a report of operations in an immediate fiscal sense, but makes few other appraisals. There is a place

for an agency within the enterprise which regularly reviews the year's operations from the point of view of the interests of the enterprise itself, the community and the factors intimately associated with and dependent upon the enterprise. Such an advisory enterprise council could help define the policies which management follows and assess their execution and effects.

The establishment of such councils in a number of large national corporations could permit some experimentation with their potentialities. Many proposals have been made for public agencies of a similar nature. The question is whether we can evolve private programs that will operate effectively to increase the responsibility of our enterprise system. Individual corporations have experimented in this direction by appointing public personalities primarily recruited from business educational institutions. The American Institute of Management makes annual audits of individual managements of large corporations. The present proposal is that there be such an agency affiliated with the enterprise which would regularly audit the year's performance from the diverse points of view of the public, enterprise and private interests. It is suggested that this report should be attached to that submitted annually by the management and board of directors, together with the account's financial report.

The advisory council should comprise representatives of the general management class, trade unions, investors in the enterprise, suppliers and lenders, the public interest as a whole, and the local communities in which the business is operated. To insure their

independence they should be appointed by a responsible outside authority such as the U. S. Department of Commerce in the case of management, the American Economic Association in the case of the public interests, the trade unions for the labor man, the stockholders for the investor, the American Association of Municipal Leagues for the communities, and the specific suppliers and lenders by their own representatives.

The responsibility of this type of agency would be to elaborate and carefully define the criteria of performance from the various points of view and to seek to test the overall achievements of the management and enterprise.

### CONCLUSION

The major changes in the political structure of American business organizations present many new problems. With a management class having supplanted owner-management the foundation for the claim to unitary power has been destroyed. New checks and balances must be constructed in order to effect a constitutional system for the government of the enterprise. The present arrangement has led to many usurpations of power and consequent abuses. There is no formal system for reviewing management's conduct and policies. The open markets are not adequate for this purpose.

The theory of unitary authority has been severely challenged by the rise of a coordinate center of power in the trade union, which insists on bargaining on matters affecting employee welfare. An open system of bargaining has been substituted for the elusive market forces which determine the terms for other suppliers of materials

and services. When well-organized workers under favorable circumstances present a new concept of the functions of the enterprise, it is to satisfy the aspirations of all factors in the enterprise. The older theory accepted the "human relations" personnel philosophy as adequate; the collective bargaining system demands a belief in a coordinate system of power which expresses itself in constant consultation and cooperation between the parties on mutual interests as well as on direct negotiations and resolution on matters of vital concern to the well-being of the employee.

### Enterprise Goals

The management has therefore a broader set of functions in this newly-devolving industrial structure. It is first the administrator of a system of economic organization discharging the policies laid down and developed by a board of directors, which it most often controls. It is the bargainer with the suppliers of materials and services and the investors and lenders. With them it is called upon to negotiate terms which are reconcilable with the objectives of the enterprise. These are more nearly now the realization of profit, the maintenance of an on-going concern, continuing growth and a progressive technology.

Beyond these enterprise goals lie the interests of the factors of production which include the investors, the managers and the employees. All look to the enterprise to satisfy their specific expectations. As trustee of these interests the management is necessarily called on to help them realize their ends in harmony with the long-term enterprise objectives.



### Advisory Function

To help attain these ends more directly and fully, employee unions are needed at all levels of the enterprise so as to permit better bargaining. The resulting integrated enterprise union should be consulted and invited to cooperate with the management in the examination of the problems, developments and experience of the enterprise.

In other areas, the enterprise advisory council consisting of representatives of the public, communities and internal groups within the enterprise, including labor, would be expected to audit annually the enterprise operations and management's performance and render a regular report of its findings.

As the public large-scale enterprise has come to play an increasingly important role in our society, it becomes vital to provide regular balances within its structure and audits of its operations to help the management steer its course more adequately in the light of its full trusteeship.

As the coordinate power centers grow larger in size, new external guides are vital to direct their behavior in their own and public interest. The reliance on the present open market contest is no longer an adequate vehicle for accommodation of interests. The above exploration must therefore be supplemented by one dealing with the techniques for providing more directives of public goals to the parties.

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## *The Free-Trade Schoolmistress and Her French Scholar*

[One hundred years ago Richard Cobden, the English statesman whose life work was the forwarding of the cause of freedom of trade, negotiated a commercial treaty with Louis Napoleon, Emperor of France. By the terms of this reciprocal trade pact, tariff barriers on such items as English coal and French wine were removed or greatly reduced. *Punch*, that humorous but sharp-eyed critic of current history, wrote the account of Cobden's dealings with the Emperor as if it were a school reader story about a schoolmistress instructing a pupil. The original is written in syllables like a primer, a funny device rather out of date to-day. Reproduced by permission of *Punch*.]

There was a boy in Paris; his name was Louis Napoleon. He was a great big boy, and he made all the little boys do what he pleased. Now all the little boys wanted to buy all their things in France, when they might have sent to England for many of those things, and bought them there twice as cheap. Was not this foolish of them? They said, "If we spend all our money at home, among ourselves, then none of it will go away to

England." But they forgot that if they bought cheap English things, the English would buy cheap French things, and so their money would come back again.

Louis Napoleon was a clever boy as well as a big boy, and he thought the little boys were in the wrong. But he had been fond of playing at soldiers, with rifles and cannons, and knew more about such things than he did about buying and selling.

Just after he had finished a game of soldiers, which he won, and when he was sitting down to rest himself, there came to the town of Paris, where he lived in the Tuileries, a nice old lady. Her name was Cobden. She did not like playing soldiers at all, but loved to see little boys, and big boys as well, play at commerce instead. When they would let her, she was glad to teach them those gentle games. Louis Napoleon said to himself, "I would like to take some lessons in commerce of Mistress Cobden, so as to be able to teach the under boys." So he went to her house, and asked her to come to him and tell him all about it; and Mistress Cobden went and told him, and explained every thing to him that he wished to know.

It was funny to hear her make him spell, — F, r, double e, Free; T, r, a, d, e, Trade; — Free Trade; and I, m, p, o, r, t, — Import, and E, x, p, o, r, t, — Export; and also Tariff and Duty, and so on; and teach him the meaning of all those hard words of one, two, and more syllables. At last, when he was perfect in his lesson, he went and repeated it to the little boys, to try and make them learn it. And then he told them they must now begin to let one another go and buy things wherever those things were to be sold, and not cry and make a piece of work if French boys dealt with other boys.

Now French boys are to deal with English boys, and buy coffee and sugar, and knives and scissors, perhaps they will not be so ready as they were to quarrel and fight. And if they take what we have to sell, we must take what they have to sell. We must let their wine in at a low duty. It is good wine; some of it is called Claret. Let us pour out a glass of nice Claret to drink the health of Dame Cobden, and success to her pupil Louis Napoleon in his new game of Commerce and Free Trade.

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CAROLYN STIEBER

## A Troubled Year in Michigan

*An account of the economic,  
political and fiscal problems  
of an industrial giant*

During the entire year of 1959 Michigan and its money problems have occupied the center of the stage in a political performance certain to be remembered for pungent dialogue, melodramatic plot, and a long-delayed final curtain. No one is likely to bestow a Pulitzer Prize on this particular drama, but for all its tangled story line and multiplicity of actors, it did possess a certain fascination, and elements of high tragedy and low comedy enriched the script. This was no ordinary play, however, for it dealt with taxes, and to witness its unfolding has not been an altogether edifying experience for the audience, in this case the eight million people of Michigan.

Not since the Depression of the 1930's had Michigan been so strapped for cash, and never before in the state's history had its legislature remained deadlocked so long over the question of finances.

The battle was joined early in the spring of 1959, when it became apparent that the fiscal year 1958-59 would end with Michigan some \$57 million in the red. In presenting a record high budget request for 1959-60 to the legislature, the governor asked for \$140 million in new revenues and suggested that this increase come in the form of a state tax on income.

Michigan's hour of reckoning on its budget had been long predicted, but coming as it did at this particular time, a test of political strength was almost inevitable. For one thing, there was a Democratic governor and a Republican legislature, dominating 23-12 in the Senate and tied 55-55 in the House. In the latter chamber Republicans had won control after a heated contest that was to serve as a preliminary for the bout over taxation. Another source of friction was the belief that 1959 was a year of decision for Williams,

that he had his eye on national office, and that the opportunity to block his aspirations, real or presumed, was not to be missed. A tax, therefore, was not merely a tax. It was an instrument of potent political possibility for both sides, and the opposing groups quickly split almost solidly along party lines. The cleavage between the two houses in the legislature also widened.

### THE CRISIS OF CASH

Why should Michigan, with its immense industrial riches, ever find itself in so precarious a financial position? One explanation is the 1958 recession, which hit the state very hard. Michigan recovered more slowly than did the rest of the country, and unemployment figures here still remain well above the national average. With the present heavy emphasis on manufacture of durable goods, particularly motor vehicles, and a decline for some years in both military and civilian demand for such production, Michigan's industrial activity would have contracted even without the aggravating effects of the nation-wide recession. But coming on top of declining automobile production, the recession was a double blow. Then, as business volume lessened, sales tax receipts, which are heavily depended upon for revenue in the state, shrank too. A corresponding decline in state expenditures, however, did *not* occur.

Furthermore, the automobile industry has turned increasingly to automation and to decentralization of plant locations. Both of these trends have the ultimate effect of reducing employment opportunities in Michigan.

It is generally agreed that a more diversified industrial base is needed

here, and with this end in view any number of groups are hard at work "selling Michigan." Task forces and industrial commissions have sprung up by the dozens. But considerable controversy revolves about the saleability of Michigan's climate. This has nothing to do with temperature and rainfall; it refers to "business climate," which is supposedly measured by tax rates, labor union activity, and governmental services — especially as these factors compare with other states. Greener industrial pastures south, east, and west are said to be beckoning Michigan firms. Only the Canadian border rules out an exodus to the north.

### Assets and Service Costs

Yet even the darkest summary of economic difficulties in Michigan cannot blot out the state's undeniable assets. A vast industrial complex remains here which cannot be picked up and carried away tomorrow. There is, as well, a large reservoir of skilled and semi-skilled production workers. A beneficent geography places Michigan in the midst of lucrative industrial markets and adds a further blessing of tremendous water resources, now greatly enhanced by the long-awaited St. Lawrence Seaway. By no means the least of its assets is Michigan's rapidly expanding population.

Growth, however, is an expensive asset. Few who boast of Michigan's recent growth—which was exceeded last year only by Florida, Texas and California—bother to take note that more population requires more public services. Nor do the services furnished decades ago by state governments suffice any longer in terms of

present-day standards and requirements. Mental health facilities, for example, do not much resemble what they were in prewar years. Professional techniques and equipment costing considerable sums of money are thought to be minimum essentials today. The old agricultural colleges with their limited curriculum can no longer hope to serve the tens of thousands of students who press for education in every field of human endeavor. There are no longer enough classrooms to contain the present elementary school population or enough teachers to instruct them. Elementary school attendance in Michigan swelled by 70,000 youngsters last September; an increase of 350,000 is expected in the next five years. The standards of public health suitable for a semi-rural population no longer serve huge concentrations of people in metropolitan areas, nor do the old farm-to-market roads aid in untangling rush hour traffic around the colossus of Detroit.

Totally apart from demand for better service to an expanding population is the ever-rising cost of providing any service whatsoever. All this added expense draws on revenues designed to serve far fewer people in times when the dollar went much further than it goes today.

Everywhere states face essentially the same problem: a search for new revenues because outmoded facilities must be replaced or modernized and a variety of new services must be provided. Everywhere there is the problem of too little money and too much to pay for. There have been some sharp disagreements about the best way of raising new revenues and many a gov-

ernor has tangled with his state's legislature on this point. But nowhere has the search for financial solutions led to anything like the performance seen in Lansing.

### THE BACKGROUND

The actual chronicle of events following last spring's budget request can be briefly stated. It was the highly charged political atmosphere in which the events occurred that provided most of the vivid dialogue. The facts are these: the Michigan Senate declared its opposition to the governor's request for a graduated income tax and, indeed, to any kind of income tax at all. The Senate instead endorsed an increase in the sales tax. But because the sales tax is at present restricted by the state constitution to 3¢ on a dollar, a use tax of 1¢ was proposed to be added to the present sales tax base. This would mean that a 4¢ use tax would be paid on each dollar of articles purchased outside the state, and a 3¢ sales tax plus a 1¢ use tax on each dollar of sales within the state.

The House repeatedly rejected this tax principle, many representatives of both political parties warning that the suggested use tax increase was of doubtful constitutionality. Other House members called the use tax proposal unfair and noted that it would yield insufficient revenue to balance the budget, retire the growing deficit, or meet future needs. However, a bill attempting to link a state income tax in "piggy back" fashion to the federal income tax was quickly defeated in the House.

Republican members of the legislature made several attempts to place

the question of sales tax increase before the public in the April general election. Democrats opposed all the attempts because they were opposed in principle to a sales tax.

### Stalemates

When the new fiscal year began on July 1, 1959, the stalemate on taxes was already five months old. By then several other tax proposals had been considered, among them a flat-rate income tax and an increase in use tax accompanied by a tax on corporate profits. The Democrats indicated that either of these proposals would be acceptable to their party. The concession on adopting a use tax increase was widely regarded as a major compromise in the original Democratic position.

On July 23 an income tax bill finally passed the House, only to die a sudden death in the Senate the very same day. Simultaneously the House killed the Senate's use tax increase for the fifth time. A few days later the House approved the Senate's 1¢ use tax increase and also indicated it would sanction a 2¢ use tax increase if food were exempted. But in either case the House insisted on adding a 2 percent corporate profits tax.

The deadlock was broken on August 31 in the 141st day of the legislative session, the longest on record. A bill passed both houses adding a 1¢ use tax to the existing sales tax base of 3¢. The use tax was also extended to certain categories not previously covered, including state and federal construction projects, and hotel and motel occupancies. There was also an added tax on utilities and bank deposits and a small increase in an existing Business Activities Tax. This increase in

the BAT, as it is known locally, was accompanied by higher exemptions for low-profit companies which had previously suffered under that levy. (The BAT is not designed to tax profits.) The governor announced that he would sign the new tax bill, but with reluctance.

Almost at once a taxpayer's suit was filed by an attorney in Detroit, charging that the new tax was an unconstitutional sales tax increase in disguise. Late in October the Michigan Supreme Court concurred in this view, declaring that the use tax increase did indeed violate a 1954 constitutional amendment which limited the sales tax to 3¢.

### Current Events

The Senate, on December 2, approved a nuisance tax package despite a barrage of protest from public and business sources. The bill increased taxes on beer, liquor, cigarettes, and other tobacco products, and extended the sales tax to laundry, dry cleaning, and repair services. For several days after its passage there was some uncertainty as to just what the bill contained. One draft of it taxed ambulance and hearse trips as well as bus rides—another omitted these. Several Republicans in the House did not disguise their lack of enthusiasm for the Senate bill and even within Republican Senate ranks there was some trepidation about this ragbag approach to taxes. One Republican Senator said, "It will ruin the Republican party." "They're slitting their throats," said a Democrat.

A somewhat different set of nuisance taxes passed the Senate on De-



cember 17, augmented by a one mill increase in corporation franchise fees and temporary liquidation of the Veterans' Trust Fund. The next day this revised package passed the House, and the 175 day session of the legislature finally ended. The nuisance taxes finally agreed upon are considered "temporary"; they are to remain in effect until June 1961, and increase charges for beer and liquor, cigarettes and tobacco products, and telephone and telegraph services. The new measure, even with the increased franchise fee and the sale of securities in the Veterans' Fund, will yield revenues far short of estimated budgetary requirements—approximately a third of the amount originally asked by the governor, and only half this sum will be available for the current fiscal year.

No political group in Michigan has had kind words for this hastily drafted measure. It was hardly worth waiting a year for.

### THE CRISIS OF CONFIDENCE

It would be misleading to state that Michigan's crisis has been merely a crisis of cash. Certainly there was and there is likely to continue to be a shortage of money to meet the obligations for which successive legislatures have voted and which the governor has approved. But there was, in this stalemate, a crisis of confidence that is equally serious. The public has been exposed for a year to bitter bickering in the legislative halls and in print, and to black headlines on the tax issue. It was front page news if state employees were paid from month to month. There were signs of numbness from the long

dispute: legislative mail fell off sharply. Within the legislature it was difficult to muster a quorum and impossible to do so during the deer hunting season. The University of Michigan's Board of Regents asserted that higher education in the state was being "grievously damaged." A June 19 headline in the *Lansing State Journal* read: "Michigan State University Begs Money to Pay Staff." M.S.U.'s President Hannah reported "an alarming list of faculty resignations." The two largest universities in the state then owed some \$8 million to thousands of vendors, while payments to local school districts were \$28 million in arrears.

Some long-unpaid contractors halted work on construction projects; others have charged 7 percent interest on overdue bills and filled orders only on a cash basis. Even during the brief period when the use tax increase was being collected, the public cupboard remained bare as payments to public employees, vendors, and school districts pre-empted all available cash. Some school districts experienced difficulty in borrowing money; the long steel strike depleted welfare funds in a number of counties which then looked to the state for relief. The welfare load in general can be expected to increase in the winter, as it does every year.

### Name-Calling

If all of these factors were not enough to tarnish Michigan's reputation at home and nationally, there are also the endless epithets which filled the newspapers. "Socialism" has been a frequent charge against the income



tax; the specter of Karl Marx regularly stalked about the capitol. The Senate has been called an "impregnable bastion of reaction and a concrete pillbox." Charges of "scare propagandist" and "Paul Revere" have been hurled at the governor for allegedly alarmist statements. He has also been accused of deliberately emptying the public treasury in order to force a decision on taxes. "Harebrained nitwit intellectuals" have not escaped notice, nor has Lady Godiva and her unique solution to tax problems. Proposed tax plans have been variously labeled an "abomination," a "monstrosity," and a "can of garbage." "Fakery," "phony," and "doublecross" were tossed at opponents almost daily. In such an atmosphere it was impossible to achieve a compromise and tensions were only heightened when outside organizations, such as the N.A.M., publicly congratulated the Senate for its unwavering position on income taxes.

### **Tax Proposals**

It is not that there is any dearth of proposals on which a more far-sighted compromise is possible. Nor is it merely guesswork to calculate how much revenue a particular tax will furnish. There have been numerous tax studies in Michigan, conducted by competent experts in the field. The legislature itself, in 1958, sponsored such a study. Headed by Republican Representative Conlin, a special committee on taxation engaged a group of university economists to examine Michigan's fiscal problems in considerable detail. After studying this report a majority of the committee recommended a personal income tax graduated from 3

percent to 8 percent, a corporate income tax of 5 percent, repeal of other business taxes, and an annual rebate of \$9 per person to lessen what the committee called the "regressive" effect of the present sales tax on low income and large families in the state.

The Conlin Committee report was not incorporated as a tax bill by the administration, but Williams, as previously noted, did recommend adoption of the income tax proposals.

As the months rolled by and a graduated income tax seemed doomed, both Representative Conlin and Governor Williams advocated a flat rate income levy which would tax personal income at 2 percent, corporate income at 5 percent, and earnings of banks and other financial institutions at 7 percent. With this levy would come repeal or reduction of existing taxes on business. Still later Williams endorsed the use tax increase but insisted that it be tied to increased taxes on corporate profits. Altogether the governor has offered some 30 tax possibilities for consideration. A payroll tax, flat rate and without exemptions, gained some support in both parties as a possible compromise. But the legislature hopes, by means of nuisance taxes and the mortgaged Veterans' Trust Fund, to postpone the hard decision on taxes until next November. At that time the voters could settle the issue by means of a public referendum. Yet even on this point there is strong disagreement, almost a year in advance, over the wording of such a referendum. The Democrats insist on placing a corporate income tax proposal on the ballot; the Republicans want this to be a vote only on increasing sales taxes. The state AFL-CIO

threatens its own ballot proposal—one dealing with excess profits taxation.

There was heated discussion of Michigan's business climate throughout the prolonged debate on taxes. More than one lobbyist testifying before the legislature insisted that any further taxes on business in Michigan would make the climate unhealthy and would place Michigan at a disadvantage compared with other states.

### TAXES IN OTHER STATES

The hope of finding tax sanctuaries in other states persists in the face of many facts to the contrary. There is only one state among the fifty—Nebraska—which has neither a sales tax nor a levy on incomes. Since it is unrealistic to suppose that all of industrial America will squeeze into Nebraska, the fact must be faced that there are sales taxes or income taxes everywhere in the United States, and in almost half the states there are both forms of taxation. Thirty-five states have a general sales tax; in Texas and Indiana sales tax is limited to selected items. Thirty-six states have a corporate or personal income tax or both; two states levy corporate income and sales tax; and twenty-two states levy all three taxes. More than one state now having only one of these taxes is earnestly considering adding another.

### Income Tax

There is nothing new about state taxes on personal and corporate income, in fact they pre-date federal income tax legislation by many years. Virginia adopted the first state tax on

income in 1843. Most state income taxes are slightly graduated, ranging from a low between 1 percent and 3 percent to a high between 5 percent and 9 percent. Corporate income levies, on the other hand, are more often at flat rates—5 percent is common.

### The Sales Tax

The sales tax came almost a century later; Mississippi led the way in 1930 and that decade saw many more adoptions in other states. The sales tax, everywhere accompanied by a use tax on articles brought in from other states, is levied at a rate between 2 percent and 4 percent. Three percent is most common. A levy of 4 percent is found in only two states—Pennsylvania and Washington—although the latter plans to reduce this rate in 1961. Food, drugs, and medical supplies (or at least one of these categories) are exempted from sales tax in ten states. All states provide for some categories of exemption. Michigan, for example, does not impose sales tax on the purchase of tools, equipment, or machinery by automobile companies.

A sales tax that exempts food and drugs is likely to be as "progressive" as (or no more "regressive" than) an income tax which allows small exemptions and assesses a flat or barely graduated rate. Both taxes, as enacted in a number of states, fall most heavily on lower income people, since the rates lack the steep gradation which is a feature of federal income tax. Too often, however, the labels of "progressive" or "regressive" continue to cling, and the onus of passing a wrong-labeled tax can be a heavy political burden.

### Corporate Income Tax

It has been persistently argued that a corporate profits tax in Michigan, in and of itself, would create a poor business climate. The Big Three in the automobile industry have made no secret of their support for this view. But these same companies must apply a different standard in other states because Ford, Chrysler, and General Motors all have plants in states that currently tax corporate income. Ford plants can be found in 18 corporate income taxing states, Chrysler in eight, and General Motors in 13 such states. Furthermore, most of these plants were established in these states *after* and not *before* the various corporate levies were enacted.

Tax sanctuary for business is a mirage; where it does exist it is a temporary phenomenon, soon to fade and disappear. No state can function today without tax revenues from industry sources. In all states the tax burden is likely to increase. The chances of its decreasing or even remaining constant are not promising. The possibilities of "escape from income tax" are likewise no longer very real.

### AN ANTIQUATED CONSTITUTION

In its efforts to postpone the hard decision on taxes as long as possible, the Michigan legislature is actually aided by the state's 52-year-old constitution. This document pegs the sales tax at 3 percent and requires voter approval of any change in this rate. Since the effort to circumvent the restriction by means of a use tax increase was declared illegal, there is now no alternative to a public referendum if the sales tax is to be in-

creased in an effort to enlarge revenues. But even assuming that there is a favorable public vote on increasing sales taxes, the general fund will benefit very little since another restrictive constitutional amendment requires that 5/6 of sales tax monies be set aside for schools and local governments. Earmarking this most fruitful source of revenue in Michigan has been criticized by state leaders of both political parties. If it continues, all the fiscal troubles which now plague Michigan will soon recur, whether or not the sales tax rate is raised.

Gasoline and motor vehicle taxes are similarly earmarked for highway purposes, a practice followed in a number of states. Other specialized funds are also earmarked—in 1957-58 \$673.1 million out of \$992.5 million in total revenue were earmarked in one form or another. Unrealistic debt ceilings imposed by the 1908 constitution have had to be revised periodically. The constitution of Michigan is now a shapeless mass of often inconsistent provisions.

### Reapportionment

Sharp criticism is leveled at the constitution for still another of its provisions, which specifies the boundaries of Senate districts for representation in the legislature. Because the boundaries are thus frozen, reapportionment in the Senate is virtually impossible and Michigan voters have a very unequal voice in state affairs, depending entirely on where they happen to live. Many other states face this problem but it is highlighted in Michigan because of the recent difficulties in reaching a political compromise. Some senators now represent fewer than

50,000 people while others, in fast growing metropolitan areas, speak for more than half a million.

There is bi-partisan agreement that Michigan's legislature needs to be reapportioned and that the state needs a new constitution. There is considerable disagreement as to how these aims can be effected. The Democrats in particular do not believe a constitutional convention could accomplish much of value since the convention delegates would be elected from *present* Senate districts, as required by the constitution, and the Republicans have firm control in the Senate. The League of Women Voters has said that it will press for an amendment broadening the basis of delegate selection. Once having gained that objective, the League will endorse the writing of a new constitution for Michigan.

### THE FUTURE

There is no doubt that Michigan needs a modernized constitution, one no longer honeycombed by tax diversions and other restrictions. Nor is there any doubt that a reapportioned legislature would more accurately reflect the great shifts in population within the state. In the past six state elections a Democratic governor has been chosen, often by large majorities, but not once during his tenure has Republican control of the legislature been shaken. Redrawing district boundaries may not prevent any future political impasse but the hope is that this would become less probable.

It is possible, however, that the potential gains from reapportionment are overestimated. Even in the lower house, where apportionment is less dis-

torted, the Democrats in 1958 were able only to tie the Republicans 55-55. Also, some of the most outspoken Republican critics of the administration now in the Senate do not come from the least populated areas where a reapportionment would be most effective.

A new constitution and even drastic reapportionment will still not solve all of Michigan's problems. The state's economy is now so dependent on the automobile industry that any marked decline in automobile production has very serious effects. A broader industrial base must be established in Michigan, and soon, for a growing population needs more jobs than ever to maintain high employment levels. Stable new revenues of sufficient yield must be found to cope with the demands of this expanding population, which now depletes public funds faster than they can be accumulated from present sources of taxation.

But Michigan is being frustrated in terms of the very things it needs most. Confusion and delay do not inspire confidence in a state's industrial promise and do not make an attractive climate for luring more industry. Politically inspired charges and countercharges do not pay overdue bills and do not reduce high interest rates on large sums of borrowed money. Black headlines do not increase public awareness of basic fiscal problems.

The black mark left on all state and local governments by the muckrakers half a century ago was a long time in fading, and public confidence in public officials was slow to return. In more recent years the states have lamented the erosion of their powers in favor of the federal government,

and state legislatures have suffered a steady loss in prestige. Now there is this new image of a giant among states on its knees for a year, with its legis-

lature unable to legislate. This view of one state does irreparable harm to the cause of all state government, and does nothing for the people of Michigan.

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## *Toward a Federal Income Tax*

The conscientious filler-out of Form 1040 is now on the home stretch. He is running his race toward April 15 under the burden of a national debt of \$285 billion, with current federal government expenses of \$80 billion. We invite him to put his feet up for five minutes and read the following editorial, "Our National Bankruptcy," from *Harpers Weekly* for January 7, 1860:

By the showing of the Secretary of the Treasury the income of the United States falls short of the expenditures by thirty million dollars. This amount is borrowed from year to year to pay for the service of Government. How long is this to last?

The United States are the only country in the world whose income is dependent on the precarious and fluctuating resource of foreign trade. All other countries raise a revenue squarely and fairly by taxing their people honestly for the expenses of Government. Our financiers have never had the pluck to face the question, and to say to the people of the United States: If you want a sixty million Government, tax yourselves to pay for it.

The President, seeing the impossibility of getting on with the present deficiency of revenue, recommends an increase in the tariff. No such measure will be adopted by Congress. An average duty—15 per cent.—as levied by the tariff of 1857—is quite as much as people ought to pay on the goods they require from abroad; and, besides, the slavery question has for the present so completely eclipsed the tariff, that there is very little chance of the latter becoming seriously considered.

There is a great name in store for the financier who shall have the courage and the sagacity to undertake a thorough reform of our financial system, so as to render the public revenue independent of the fluctuations of trade. Sooner or later we shall come to this. It is absurd to expect that this great country will go on forever alternating between bankruptcy and plethora, when a direct tax might be levied with so little inconvenience and so much fairness. Where is the claimant for this post of fame?

KENNETH O. ALEXANDER

## The 1959 Labor Law

*Pertinent background information  
and the significance of specific  
provisions of the new legislation*

On September 3, 1959, a House-Senate Conference Report signaled the first major change in the nation's labor law in twelve years. The Report was subsequently signed into law by President Eisenhower on September 14, with various portions of the law to go into effect from 30 days to a year after the President's signing.

Since passage of the Taft-Hartley Act in 1947, Congress has frequently occupied itself with the question of additions and changes to that law. But labor legislation is fraught with potential political consequences for congressmen, and consequently the predominant feeling among them has often been that it is better to do nothing than to flirt with possible loss of political support. The organizations that typically ranked themselves on either side of any legislative proposals were impressive ones. Hence, except for some minor changes in Taft-Hart-

ley in 1951,<sup>1</sup> and considering only legislative and not administrative changes in the law, we have had twelve years under the same law. The revelations of the McClellan Committee and consequent intensified publicity contributed in large measure to the additions and changes of 1959.

The aim here is to describe the provisions of the 1959 legislation. In some areas the writer will try to give pertinent background information or to elaborate upon the significance of specific provisions. In general, Titles 1 through 6 of the Labor-Management Reporting and Disclosure Act of 1959 represent additions to the law and deal mostly with the internal affairs of unions: elections, disciplining of members, establishment of trusteeships over local unions, etc., as well as providing for the reporting to the Secretary of Labor of certain types of information by both unions and em-



ployers. Title 7, the last, is concerned with changes and additions to the Taft-Hartley Act and its provisions lie generally in the area of union activities in relation to employers, rather than in the area of internal union functioning.

#### **TITLE 1—"BILL OF RIGHTS"**

Members of labor unions are assured equal rights to vote in union elections, attend meetings and freely express their views on union affairs, subject to "reasonable" rules and regulations of the union. For local unions, dues and initiation fees can be raised and assessments levied only by majority vote of members at a membership meeting or in a membership referendum. For the international union, these changes can be made only through majority vote of delegates to a convention, majority vote of members in a referendum or majority vote of the union's executive board subject to subsequent convention ratification.

No union shall limit the right of a member to initiate any legal action or to appear as a witness. However, a union can require that a member first exhaust the union's own hearing procedure (not to exceed four months in time) before instituting legal action against it. And no employer can finance or encourage such legal action by a member against the union. No member may be "fined, suspended, expelled or otherwise disciplined except for nonpayment of dues" unless he has been "(A) served with written specific charges; (B) given a reasonable time to prepare his defense; (C) afforded a full and fair hearing."

In case of any violation of the above, persons may bring a civil action in a

district court of the United States for relief, including injunctions. And unions must make available copies of labor contracts to members and subordinate units requesting them and affected by them, which provision can be supported by district court action brought by the Secretary of Labor.

Finally, "Every labor organization shall inform its members concerning the provisions of this Act."

#### **Effect of Title 1**

With regard to this Title 1, and in spite of the wide publicity given to a "Bill of Rights" for union members, its impact upon the functioning of unions will likely be less than any other section of the new law. The requirements upon the union as an institution, namely the measures dealing with dues increases and with the availability of collective bargaining contracts, are in line with established general practice among unions. Yet they will help prevent the few extremes of union conduct in this area as revealed by the McClellan Committee. In other words, the impact will be slight but desirable.

As for the remainder of Title 1, dealing mostly with the rights of members in relation to their union, the law does little more than codify the existing attitude of the courts toward cases arising in this area. The rights of the individual are subject to the "reasonable" rules of the institution, and "reasonable" will continue to be interpreted by the courts. Balancing the individual rights of members against the institutional right of the union to protect itself as an institution is a delicate question that has long intrigued students of American union-



ism. The two considerations are often contradictory, a gain for one side meaning a loss for the other. And the hairline of balance will vary with the issue and with the circumstances. Hence, one could not expect the law to attempt to deal with the myriad detail of this problem.

### Court Action

Note too that enforcement of this title relies upon the aggrieved individual initiating court action. This has always been available to the union member, but ignorance, fear, finances and the slowness and complexity of the procedure have kept many worthy cases from court scrutiny. This is likely to continue, though the requirement that unions inform their members as to the provisions of the act and the act's general publicity may make union members somewhat more aware of their rights.

Finally, there remains doubt as to whether we should rely upon the court system for review of this broad area concerning the individual member in relation to his union. The more general adoption of "impartial review boards" to hear union disciplinary appeals could serve as a more frequently utilized, closer-to-the-scene, and more efficient means of striking some balance between members' rights and union institutional security.<sup>2</sup>

### TITLE 2—REPORTING

Section 201 of this title, dealing with reports of labor organizations, makes changes in an area that had previously been contained in the Taft-Hartley Act. T-H had required that unions file rather extensive organizational and

financial information with the Secretary of Labor and that their officers file non-communist affidavits before the union could utilize the services of the National Labor Relations Board. That is, a union had to do both of these before it could file unfair labor practice charges against an employer with the NLRB and before it could appear on an NLRB ballot in a representation election.

Section 201 repeals both these requirements of T-H. But it restates the reporting requirements of T-H, adds to them, and makes provision for their availability to union members. Penalty for failure to report or for falsifying information then becomes the \$10,000 fine and/or one year's imprisonment which applies to all reporting requirements of Title 2.

To sum up, Section 201 of this title changes Taft-Hartley by adding to the required information to be filed by unions, making specific provision for the availability of this information to union members and to the public, and substituting criminal penalties in place of ineligibility to use the NLRB as the penalty for non-compliance. The latter will terminate a situation in which inconsistency in public policy was the extravagant price paid merely for the sake of a weak enforcement provision. Under Taft-Hartley the United Mine Workers has served as a frequent reminder of the case of the non-complying union. Hence its rights to use the NLRB for charging employers with unfair labor practices and for holding representation elections were withdrawn. As an organization the UMW has been strong enough to thrive without NLRB protection against employer unfair labor practices. But also af-

fect was the right of employees, in free NLRB elections, to choose their bargaining agent. What of the case where the majority of employees supported the non-complying union? Here, too, was inconsistency in public policy for the mere sake of enforcement, though the courts in recent years have held that the NLRB could not deny the right of free choice and if necessary would have to turn the election over to an independent agency in order to achieve both free choice and satisfy T-H provisions against a non-complying union using the election machinery of the NLRB.

#### **Affidavits and Reports**

Of course, this peculiar enforcement provision of T-H stemmed in part from the question of what was to be done in the case of those unions whose officers did not file non-communist affidavits. Those affidavits left much to be desired as a device for reducing the number of communists holding official union positions. The 1959 law deals with the question more directly, as contained in its Title 5, discussed below. This enables the law to treat enforcement separately and directly, and not intertwine it with substantive provisions of the law to the possible detriment of both the provisions and the enforcement.

Section 202 of this title provides for the reporting by union officers, as well as by union employees with some degree of responsibility in their duties within the union. Generally, they must report for themselves and their immediate family any security or interest in, or any income derived from, 1) an employer organized by the union, 2) an employer which the union is attempting to organize, 3) business

transactions with employers such as above or with the union. These exclude "legitimate" interests and payments which are defined both in this section and in Section 302 of T-H, including securities traded on a national exchange, normal wages and fringe benefits accruing as an employee, etc.

#### **Reports by Employers**

Requirements for reports by employers are contained in Section 203. They must report loans and payments to union representatives, again with "legitimate" exceptions, and also payments to employees or expenditures for the purpose of influencing the exercise of the employees' right to organize and bargain collectively. They must report any arrangement with a labor relations consultant for such purpose, or for supplying information on employees or the Union during a labor dispute. Any consultant engaged in such activity must make a report of all receipts and disbursements in connection with any labor relations activity.

In treating employer expenditures to influence employees' use of their right to organize, Section 203 specifically includes any expenditure which would "interfere with, restrain, or coerce" employees in the exercise of those rights. Now this is precisely the language T-H uses, and the Wagner Act used before it, in describing an unfair labor practice for employers. In fact, Section 203 says specifically that the meaning of these words is precisely the same as in the T-H Act. The net effect is that the 1959 law requires the employer to report his own unfair labor practices, with criminal penalties if he fails to do so. And

since all reports must be made public information by the Secretary of Labor, it would be a simple matter for a union to use any such reports as the basis for instituting unfair labor practice charges against the employer before the NLRB. On the face of it, this smacks of requiring a person to give evidence against himself, and is thus a violation of the Fifth Amendment. Also, would an employer who was found by the NLRB and courts to have engaged in the unfair labor practice of "interference, restraint or coercion" of employees in their right to organize be subject to the criminal penalties of the 1959 law if he had not previously reported that he had engaged in these activities?

### TITLE 3—TRUSTEESHIPS

Labor unions are required to file semi-annual reports of trusteeships established over subordinate units, the initial report to be filed within thirty days after enactment of the act or the imposition of the trusteeship, whichever is sooner. These reports are to include reasons for imposition, the extent to which the subordinate unit's membership participates in the election of both delegates to conventions and officers of the parent union, and the financial condition of the subordinate unit. Provisions of the previous title apply in that the reports are to be made available to the membership by the union, and made public information and available to the states by the Secretary of Labor. Also the union must keep verifying records for these reports, and the Secretary of Labor may bring civil action in district court upon evidence of violation of these reporting requirements. Any person

who willfully fails to make a required report or who knowingly falsifies reported information is subject to \$10,000 fine or one year's imprisonment, or both.

Trusteeships must be established in accordance with the constitution of the union,

and for the purpose of correcting corruption or financial malpractice, assuring the performance of collective bargaining agreements or other duties of a bargaining representative, restoring democratic procedures, or otherwise carrying out the legitimate objects of such labor organization.

During a trusteeship the votes of delegates from the trustee subordinate unit shall not be counted at any convention or election of officers unless those delegates were elected through secret ballot by the members of that unit. And the funds of the subordinate unit cannot be transferred to the parent union, except for the normal per capita tax and assessments payable by the subordinate unit. The same penalties of fine and/or imprisonment apply for willful violation. Either the Secretary of Labor or an affected union member may bring civil action also, with injunction as one form of relief. In any such civil case the burden of proof shifts to the union after a trusteeship has been in existence for eighteen months, in that such trusteeship will be declared invalid and discontinued unless the union proves its continuance is necessary to achieve one of the purposes quoted above.

The aim of the law in this title was again determined by the target as defined by the hearings of the McClellan Committee. A few unions have seriously abused the customary right of the international union, under the organization's constitution, to establish

a trusteeship or "administratorship" over member locals. The right is understandable in the light of organizational necessity and for the reasons as quoted above. Unfortunately, in some cases the international leadership has used its organizational right to establish trusteeships in order to throw out local leaderships politically opposed to them, to install loyal subordinates for lengthy periods of time, while denying usual rights of the membership and confiscating funds. In this instance the law draws a more precise boundary in the difficult area of institutional discipline v. individual rights, and in citing comparatively specific allowable reasons for trusteeships it provides the courts with a more clear-cut framework for decisions.

#### TITLE 4—ELECTIONS

National or international unions shall elect officers at least once every five years either by membership secret ballot or at a convention of delegates chosen by secret ballot. Local unions shall elect officers at least once every three years by membership secret ballot. Officers of intermediate union bodies (joint boards, trades councils, etc.) shall be elected at least once every four years either by membership secret ballot or by union officers who themselves have been elected by secret ballot.

Internationals and locals must comply with reasonable requests of candidates for union office to distribute, at the candidate's expense, campaign literature to all union members, and must refrain from discrimination among candidates with respect to the use of membership lists or the dis-

tribution of campaign literature. Within thirty days prior to an election, each candidate shall have the right to inspect a list of members who are subject to a contractual union shop provision, which list must be maintained by the union. Thus a union must distribute a candidate's literature to *all* members but is required to allow the candidate to inspect only a list of those members under a union shop clause. So it would appear that a local candidate where there is no union shop has no access to the membership list, and an international candidate has no access to lists of members in right-to-work states. Yet the union must distribute his literature to those members. It is difficult to discern the rationale for the more limited access to membership lists. And *must* the international maintain a separate list of union-shop members? Or would it be considered in compliance with the law if it simply allowed all candidates to examine its complete list?

#### Opportunity for Candidature

Reasonable opportunity shall be given for the nomination of candidates. Every member in good standing shall be eligible to be a candidate<sup>3</sup> and shall have the right to support any candidate without reprisal of any kind by the union. A member cannot be declared ineligible to vote or to be a candidate because of alleged delay or default in dues payment if he is subject to a check-off of dues. Each member must be sent an election notice by the union not less than 15 days before the election. The votes of local unions shall be tabulated and published separately, and the ballots and election records must be preserved for one

year. Dues and assessment receipts of a labor organization may be used to publish factual statements of issues and to meet election expenses, but shall not be used to promote a candidate.

### Enforcement

The Secretary of Labor, upon the application of a local union member, can determine that the constitution of the local does not provide adequate procedure for the removal of an officer guilty of serious misconduct. He then can direct a hearing and a subsequent secret ballot election among the membership for the purpose of removing the officer. The Secretary is directed to establish minimum standards and procedures for determining the adequacy of the removal procedure in local unions.

In the enforcement of these various election requirements, the Secretary of Labor again plays a key role. A union member who has exhausted the remedies available under the union's constitution, or who has invoked those remedies without obtaining a final decision within three months, may file a complaint with the Secretary that any of the above lengthy requirements has been violated. The Secretary may then bring court action against the union. The court, upon the evidence, may declare an election void and order another under the direction of the Secretary. Such a new election cannot be delayed by a union appealing the decision of the court.

The election regulations of this title go into effect 90 days after enactment of the act in the case of a union whose constitution can be modified by its officers or governing body. In the case of unions whose constitutions can only

be changed by convention action, the law goes into effect at the next convention or one year from the date of its enactment, *whichever is sooner*, for if no convention is held during the one year, the governing body of the union is empowered to make the necessary constitutional changes for conformance to these regulations.

### TITLE 5—SAFEGUARDS

This portion of the law begins by generally describing the position of trust held by union officers and their duty to handle funds solely in the interest of the union and its members, to refrain from having conflicting personal or pecuniary interests and to account to the union for any profit received through activities in their capacities as union officials. Members have the right to sue for damages or recovery of funds for violations of these general requirements, should the union itself refuse to seek appropriate relief. In addition, penalties of \$10,000 fine, 5 years' imprisonment, or both, are provided for union officers who embezzle or steal union funds or convert them to their own or another's use.

Title 5 goes on to provide that officers of labor organizations with property and annual receipts in excess of \$5,000 shall be bonded for an amount not less than 10 percent of the funds handled by the officer, and not more than \$500,000. Furthermore, unions shall not make loans to an officer in excess of \$2,000, and neither a union nor an employer is permitted to pay the fine of any officer or employee convicted of violation of the act. Fines and imprisonment again are provided for violators.



Persons who are or have been members of the Communist Party or who have been convicted for various offenses (ranging from murder and rape to violation of sections of this Act) cannot serve as officers of labor organizations, as labor relations consultants or as agents of employers' associations dealing with labor organizations. This applies during Communist Party membership and for five years thereafter, and for five years after conviction or after imprisonment resulting from conviction, unless within the 5 years

(A) his citizenship rights, having been revoked as a result of such conviction, have been fully restored, or (B) the Board of Parole of the United States Department of Justice determines that such person's service in any capacity [described above] would not be contrary to the purposes of this Act.

The law further provides that when the disqualification is on the basis of a conviction, the above provisions apply "regardless of whether such conviction occurred before or after the date of enactment of this Act.<sup>4</sup> Fines and imprisonment penalties apply to those who "knowingly permit" such persons to hold such positions, in addition to any person who "willfully violates" these provisions.

Section 505 of Title 5 enlarges upon prior T-H restrictions on payments to employees or union officials beyond those specifically defined as legitimate. Payments to employees or union officials for the purpose of influencing employees' exercise of their right to freely organize are prohibited. For a person to demand or receive such payment is also unlawful. In addition, it is unlawful for a union or its officers to demand or accept a fee in connection with the unloading of a motor

vehicle; a provision aimed at a practice which has occurred in longshoring and trucking.

## TITLE 6—MISCELLANEOUS PROVISIONS

In the main, this title is concerned with preventing conflict with other statutes, and with granting the Secretary of Labor some investigative powers and permission to seek assistance from other government agencies. Unions are prohibited from disciplining individuals for the exercise of their rights under the Act, and any violence to a similar end is subject to penalty. The ban against extortionate picketing is also found here, phrased as picketing for "the personal profit or enrichment of any individual" with the exception of bona fide wages or employee benefits.

Now much of the above involves the government in the internal affairs of unions to an unprecedented degree. And these titles can be expected to halt the extreme abuses of some union officials that have so often captured the headlines. Yet these were practices of a small minority of union officials and it would be easy to overestimate the impact of these regulations on internal union affairs.

Granted that many of the provisions are in the democratic tradition, they cannot be expected to result in a relative shift from bureaucracy to democracy in the general functioning of American unions. True, they constitute something of a democratic framework, but within that framework the affairs of most union households will be conducted much as before. A turnover of elected union officials will con-

tinue to be rare, membership attendance at regular union meetings will continue to be low, the trend of increased centralization of decision-making in unions is likely to continue, etc. These factors are not cited in criticism of unions, but rather as characteristics of union functioning whose causes lie deep in the unions' social, economic and industrial environment. The conflict of the pressure of necessity and efficiency toward bureaucracy with ideals and traditions of grass roots participation has been a major concern both within and outside of American unions. The 1959 law cannot be expected to resolve or significantly change that conflict.

#### TITLE 7—AMENDMENTS

The major changes in T-H are in the following areas:

##### ● Federal-State Jurisdiction

During the years since passage of T-H the NLRB had successively narrowed its jurisdictional standards, so that more and more cases near the borderline of "interstate commerce," though still legally under federal jurisdiction, would not be accepted by the Board. This left an ever-widening no man's land in labor law administration, where persons involved had recourse to neither state nor federal administrative agencies. The provision of T-H allowing the NLRB to cede its jurisdiction to state agencies was of little help because of the restraining provision that the state law, on the issue in question, could be inconsistent in neither its language nor its interpretation.

The 1959 law provides that the NLRB must not narrow its jurisdictional standards beyond those of August 1, 1959 and permits state and territorial agencies to assert jurisdiction over those cases which the NLRB declines. In other words, jurisdictional standards of the NLRB are held as is, while state agencies expand at the borders. Nothing is said about the consistency of state or territorial law with federal law, and the result is the wider application of often substantially diverse laws. Greater overall uniformity in public labor policy could have been gained by having the NLRB do the expanding at the borders. With the Board's burdensome case load, this undoubtedly would have necessitated an expansion of NLRB personnel and facilities. Additional federal cost would have been involved. But there remains doubt whether the states and territories can more easily assume the greater burden, in addition to the question of their diverse administration as compared to the uniformity of federal administration.

##### ● Economic Strikers

Section 9(c) (3) of T-H contains the sentence: "Employees on strike who are not entitled to reinstatement shall not be eligible to vote" (in a representation election). The provision often has been attacked as disenfranchising those employees who may have the greatest stake in the outcome of a representation election. It provides the employer with the weapon of "permanently replacing" strikers with strongest pro-union sentiment. Hence it often has been recommended that this provision of T-H be changed. President Eisenhower's legislative



suggestions to Congress have contained the recommendation several times.

The 1959 law substitutes the following for the above T-H sentence:

Employees engaged in an economic strike who are not entitled to reinstatement shall be eligible to vote under such regulations as the Board shall find are consistent with the purposes and provisions of this Act in any election conducted within twelve months after the commencement of the strike.

In other words, replaced economic strikers have the right to vote in representation elections, subject to a time limitation and administrative regulations of the NLRB.

#### ● Boycotts and Recognition Picketing

The so-called "secondary boycott" provisions of T-H, contained in Section 8 (b) (4), are lengthy and involved. Court interpretations of these provisions are much more so. No attempt at their description can be made here. Hence the 1959 changes must be discussed with the assumption of some knowledge of these provisions on the part of the reader.

Section 8(b) (4) of T-H made it an unfair labor practice for a union to induce *employees* to strike or refuse to handle goods as a means of furthering certain purposes. The 1959 law uses the terms *individual* and *person* in its changes in this section, so that a single case of such inducement by the union can constitute an unfair labor practice. It also expands the purposes of such union conduct to include the negotiation of a so-called "hot cargo" agreement with an employer. In fact, it becomes an unfair labor practice for both the employer and union to agree upon a "hot cargo" clause, and such agreements are declared unenforce-

able, but with the exception of subcontracting practices in the construction and clothing industries. The major impact of these changes, of course, will be in the trucking industry. "Consumer boycotts," in the sense of general publicity for struck goods, are permitted so long as they do not induce secondary employees to cease handling the struck goods.

Recognition or organizational picketing by a non-certified union is declared an unfair labor practice when the employer has lawfully recognized another labor organization, when a valid representation election has been held during the preceding twelve months, or when such picketing has continued for thirty days without an election petition being filed with the NLRB. But the 1959 Law goes on to say that picketing under the above third situation is permissible so long as it does not have the effect of inducing other employees not to handle the goods of the struck employer. What might be termed "pure display" picketing is permitted. No doubt this will give rise to some difficult distinguishing for the courts. But these new requirements for organizational picketing do give some legislative guideposts that appear preferable to the recent attempts of the NLRB to prohibit organizational picketing as a form of union interference with the right of employees to freely choose their bargaining agent, attempts that have been rather unsuccessful in the courts.

#### ● Building and Construction Industry

In brief, the new law allows employers and unions in this area to negotiate agreements that employees will become union members within seven

days after hiring or after negotiation of such agreement, whichever is later. The agreements may also require that the employer notify the union of employment opportunities so that the union may refer applicants, and may establish training or experience requirements for jobs or job preference on the basis of seniority.

This is in recognition of the general inadequacy of the T-H union shop as

a union security measure in the building industry, where transient employment is the rule. This inadequacy has resulted in the widespread ignoring of T-H union security restrictions, by the mutual consent of employers and unions. The divorce of reality from the law is likely to continue in this area, however, for the 1959 law also explicitly states that state right-to-work laws shall continue to take precedence in this area.

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1. The most important of these removed the requirement that the employees of a bargaining unit must vote in favor of a union shop in an NLRB election before such a requirement could be negotiated by the union.

During four years of NLRB administration of such elections, over 95 percent had resulted in a majority of eligible voters authorizing the union shop.

2. See the December 22, 1958, issue of *Solidarity*, the UAW publication, pp. 4-7, for a report by that union's Review Board.

3. But subject to the prohibitions of Title 5 regarding Communist Party membership or criminal conviction, described below, and to "reasonable qualifications uniformly imposed."

4. However, it would seem that this provision, smacking of ex post facto law, is of doubtful constitutionality. Should the law be applied to persons affected because of conviction less than five years prior to enactment of this law, this question may come before the courts.

## *Industry and Community*

Big industries are properly reluctant to assume a parent role in community development. They encourage their workers to participate in making the municipality into a good community. The result may not be perfect, but it is more lovable than the spotless efficiency of the benevolent father.

The welfare municipality may be noble in motive, but it provides more and more things for men which once they provided for themselves. This involves making decisions for men which once they made for themselves, and undertaking responsibilities which once were theirs, and thus diminishing the special qualities that distinguish man from animals and vegetables, the special qualities that make him man.

. . . Municipalities become good communities more by the positive actions of good men and women than by the repression or extermination of evil. Negative aims are not enough. We need the invigorating stimulus of supporting some cause dynamically or pursuing some purpose fervently.

(from the October, 1959 Monthly Letter of the Royal Bank of Canada. Reproduced by permission)

W. PAUL STRASSMANN

## Rigor and Ritual in Plant Location

*Theory and practice of locational  
economics as exemplified in the  
approach of five writers in the field*

There is a widespread belief in the United States that full-page advertisements about, say, Appleville being "A Good Place to Work—A Good Place to Live" will bring surveyors to the cornfields next to the railroad tracks. Like the practice of saving first-dollars-earned and throwing pennies into wishing wells, these full-page newspaper displays, community festivals, and parades show the uneroded core in our culture of belief in casting spells. All these colorful practices must be viewed as being their own reward, which is not to say they are virtuous. On the contrary, the associated feelings of buoyance and camaraderie, insofar as they bear no relation to the objective situation, are apt to be followed by a community hangover of disappointment and an aggressive search for imaginary villains. In the meantime community action that could, in fact, have kept Appleville a profitable

location for regional industries may have been neglected.

Ritual and incantation generally persist in the absence of knowledge, in this case, knowledge of the factors determining the location of industries. Armies of economists have been recruited and commissioned in this century; but they have left the spatial distribution of economic activities a relatively slighted problem. When Alfred Marshall at Cambridge announced that locational problems "depend chiefly on variations in the area of space, and the period of time over which the market in question extends, the influence of time being more fundamental than that of space," (*Principles of Economics*, 8th ed., p. 496) most English-speaking economists felt justified in doing other things. Several divisions of economists marched on problems of income distribution, monopoly, business cycles, international

trade, and some even attacked the role of culture and non-economic variables in resource allocation under such hilarious rubrics as the "non-independence of the utility function."

Only one full-time and one older part-time English-speaking platoon have been deployed in the area of locational economics. Also squatting on the preserves are a few government officials and picturesque bandits that ambush itinerant merchants with rock-slides of facts in canyons of the rule-of-thumb. Of course, the neighboring forest lands of transportation theory have long been settled by groups pre-occupied by court decisions on freight classification and similar legal technicalities. The climate of this neighboring land is such that visibility sometimes falls to three or four trees per inhabitant.

### Books Worth Reading

There are five books about economic location that are worth reading and I can see no reason why you should repudiate them all. In fact, each book has some quality the others lack. Any discussion of factors influencing plant location can deal with specific matters, such as the minimum size of water mains and reciprocal switching agreements among railroads, or with high-level abstractions about price funnels, demand cones, and interregional equilibrium. The five books to be discussed here include both kinds of thoroughbreds and three mongrels. They are:

- Leonard C. Yaseen, *Plant Location*, Roslyn, N.Y.: Business Reports, Inc., 1952.
- Melvin L. Greenhut, *Plant Location in Theory and Practice: The*

*Economics of Space*, Chapel Hill, N.C.: The University of North Carolina Press, 1956.

- Walter Isard, *Location and Space-Economy: A General Theory Relating to Industrial Location, Market Areas, Land Use, Trade, and Urban Structure*, New York: John Wiley and Sons and the Technology Press, M.I.T., 1956.
- August Lösch, *The Economics of Location*, William H. Woglom, with the assistance of Wolfgang Stolper, trans., New Haven: Yale University Press, 1954.
- Edgar M. Hoover, *The Location of Economic Activities*, New York: McGraw-Hill, 1948.

### Personal Impressions and Politics

Leonard Yaseen is a senior partner of the Fantus Factory Locating Service and, according to his publisher, "has literally molded the industrial map and shaped the destiny of hundreds of communities." This experience has led to familiarity with innumerable specific requirements of factories and customary policies of railroads, truckers, bankers, insurance companies, tax assessors, and many others. The material is assembled in 145 pages that are choked with tables, diagrams, charts, multi-color maps, and photographs of Fantus-located factories. There are hints on suitable floor plans for assembly lines, a table of thunderstorms and windspeeds in American cities, a map showing federal assistance to tax ratios in each state, another of coal fields, a table of safe load-bearing values per square foot of various types

of soils, a description of the nine types of parcel post zones, and many other detailed matters. The general effect of Yaseen's book is that of a cafeteria.

Nevertheless, a long-suffering but watchful shopper can find interesting morsels on Yaseen's counter. Yaseen believes that plants should be located according to "clear-cut, sound business principles," but finds that business men, if left to themselves, locate according to inertia, intuition, and insufficient data. They are most apt to botch the locational decision through spineless yielding to existing buildings and fine sites. On the other hand, the location theories of economists, while suggesting factors to be considered, are still "highly academic," a condition that Mr. Yaseen regards as perhaps not totally depraved but clearly less praiseworthy than the lowly unacademic.

In selecting a general geographic area for a plant, Yaseen says that modification of location theory according to the pattern of existing freight rates is not sufficient because "commodity rates are dynamic and new rates can be readily established to meet shipper and carrier needs at new manufacturing locations." Nevertheless, these rates "are designed to reflect the delicate balance between competitive sources. . . ." (p. 27.) The word "balance" (never "equilibrium") is used rather often, though vaguely; for example, "the most desirable community is the diversified community where industry, commerce, and services are well balanced" (p. 42). Amplification is limited to the warning that manufacturing employment should not exceed fifty per cent of total employment.

According to Yaseen, the selection of a particular community within a general region "will depend largely on labor in all its ramifications" (p. 39). An avalanche of statistics, criteria, and qualified rules-of-thumb follows; but when it comes right down to it, Yaseen rejects his own scientific abracadabra as superficial compared with two other factors: personal impressions and politics:

If there is any single factor which should receive the greatest amount of attention, it is probably the experience of other manufacturers and employers. Here the investigator can find the true reflection of the spirit and nature of the community.

. . . the proof of the pudding lies in the testimony of people who are faced with the day-to-day problems of the manufacturer. What have his experiences been while operating in the city? (p. 44).

Have there been many strikes, what were the issues, what was the reaction of local law enforcing agencies? How have the tax assessors treated *present* industry? Have zoning boards been sympathetic to the unique problems of industry? Are there hidden but powerful antagonisms and resentment to industry that do not appear on the surface? (p. 98).

No reader of *Plant Location* will get the impression that Yaseen is urging businessmen to study the general economics of location and to locate plants without consulting a factory locating service. Whether the do-it-himself businessman can find practical relevance in the general theories is indeed doubtful. No general theorist can give locational advice without a detailed understanding of the industry and market of a proposed plant. A consultant must know the specific types of materials and services required and their sources, the geographical extent of the market with respect to actual competitors, elasticities of demand, pricing policies of



relevant firms, and many other specific facts. But given all these facts, do general theorists now at large provide an accurate and labor-saving method of processing the data into a decision? No one claims they do. The general theories, to be discussed below, can prevent the overlooking of factors whose role and repercussions are not immediately apparent from the raw data, but all factors cannot (yet?) be incorporated into an operational theory. Exclusive reliance on what incomplete theories are available necessarily means decisions distorted from optimum longrun profitability. But who knows whether as many locational freaks would result as from ignorance of theory?

### Clarity and Integration

According to his preface, integration of theory with practice was Melvin L. Greenhut's primary purpose in writing *Plant Location in Theory and in Practice*. In the first seven chapters Greenhut reviews and develops general theories of economic location. Parts of these chapters are hard going for anyone rusty on undergraduate price theory, meaning geometric analyses of partial equilibrium with marginal cost and revenue curves. All of this is summarized in plain English however, in chapter eleven; and Greenhut points out that this chapter may serve as an introductory one. Chapter eleven does convey a suggestive general impression of location theory, but on several points the discussion is incomplete and therefore by itself not wholly intelligible.

Greenhut's main conclusions are (pp. 268-69):

1. When firms sell to a given buying point, they seek the least-cost location in reference

to this consumption center and ignore the locations of rivals in their plant sites.

2. When firms sell over a market area, their site-selections are influenced greatly by the location of rivals.

3. In selecting a plant site each firm seeks that place which offers the optimum sales output at a cost that cannot be matched elsewhere.

4. When firms sell over a market area the force of concentration is greater in the event of unequal costs at alternative locations than in the case of equal costs at all sites.

5. When firms sell over a market area, the tendency to disperse depends upon the height of freight cost, the elasticity of the demand function, the characteristics (slopes) of the marginal costs, the degree of competition in location, the degree of competition from substitutable products at the various locations, and the homogeneity or heterogeneity of the firms belonging to the industry.

Greenhut hastens to admit that these five tendencies can be distorted by such market imperfections as time of delivery, personal contacts, custom and various types of discriminatory pricing. The five tendencies derived from general theory are therefore converted to a grand list of factors to be considered in practice, primarily by adding "certain man-made (institutional) forces" to the "underlying forces," as follows (pp. 279-281):

#### A. Demand factors.

1. The shape of the demand curve for a given product.
2. The location of competitors, which in turn partially determines:
  - a. the magnitude of demand,
  - b. the cross-elasticity of demand at different places.
3. The significance of proximity, type of service, and speed of service; prejudices of consumers.
4. The relationship between personal contacts and sales.
5. The extent of the market area, which itself is partially determined by cost factors and pricing policies.
6. The competitiveness of the industry in location and price; certainty and uncertainty.



## B. Cost factors.

1. The cost of land, which includes
  - a. the rent of land;
  - b. the tax on land;
  - c. the availability of capital, which partially depends upon
    - (1) the banking facilities and financial resources,
    - (2) personal contacts;
  - d. the cost of capital, which is also partially dependent upon
    - (1) the banking facilities and financial resources,
    - (2) the type of climate;
  - e. the insurance rates at different sites, which in turn partially depend upon
    - (1) the banking facilities and financial resources,
    - (2) the police and fire protection,
    - (3) the type of climate;
  - f. the cost of fuel and power, which is partially dependent upon
    - (1) natural resources,
    - (2) topography,
    - (3) climate.
2. The cost of labor and management, which is influenced by
  - a. the health of the community, the park and education facilities, housing facilities, wage differences, etc.,
  - b. state laws.
3. The cost of materials and equipment, which is partially determined by
  - a. the location of competitors (sellers and buyers),
  - b. the price system in the supply area (f.o.b. mill, equalizing or other forms of discriminatory delivered prices),
  - c. the extent of the supply area, which in turn is partially dependent upon
    - (1) personal contacts,
    - (2) price policy.
4. The cost of transportation, which is partially determined by
  - a. the topography,
  - b. the transport facilities,
  - c. the characteristics of the product.
- C. Purely personal factors: the extent to which the minimax principle outweighs the quest for maximum profits.

- a. the importance of psychic income (size of plant),
- b. environmental preferences,
- c. the security motive.

An interesting part of Greenhut's book is his empirical study of eight new plants which differ from new plants studied in other books in belonging to small rather than large firms. In the location selected by five of these, according to Greenhut's interpretation of responses made in interviews, personal factors were the governing consideration. Personal contacts with buyers or sellers enhanced the profitability of the given location in three cases, and in two others the considerations which prevented location hundreds of miles away were *purely* personal, that is, love of associates and boyhood surroundings. Greenhut did not merely accept his subjects' words but tested answers with location theory and census data. Nevertheless, this section is remarkably free of jargon and readily intelligible to anyone.

Could it even be that this clarity reflects unfavorably on the value of location theory? Perhaps one should recall that newspapers are readily intelligible to historical illiterates, but that hardly means acquaintance with history adds nothing to understanding transitory events.

### Scholarship and Non-Empiricism

The general reader and his cousin, the intelligent layman, should probably be excused if they label Walter Isard's *Location and Space-Economy* out-of-bounds. Except for the second chapter, which evaluates regularities of spatial distribution that have been measured by others, Isard's book is

non-empirical, with actual places and events not even mentioned as illustrations. Historical reality is erased, assumptions are substituted and occasionally relaxed, and tendencies toward general equilibrium are analyzed. Isard commits all this in "full recognition of the deficiencies and non-operational character" of the results, hoping nevertheless to have developed "a superior set of tools and conceptual framework" for later theoretical and empirical work (p. 23). For those not yet awestruck by page 220, there is a thirty-page mathematical formulation of the equilibrium conditions, using the calculus.

Still, Isard's book in many respects compares favorably with that of Greenhut. His review of the literature is subtler, more widely informed and authoritative, and yet clearer and more readable. His use of general, rather than partial, equilibrium theory does not make the book harder to follow than the theoretical sections of Greenhut, and insofar as it is more difficult, it is also more concise and somewhat less tedious. Finally, Isard presents a series of maps of hypothetical spatial arrangements which readers who otherwise sneer at economic geometry may well find provocative. But if the general reader likes to keep his disinterest in general equilibrium, he need not feel apologetic toward Isard. After all, has Isard shown any interest in the general reader's concern for his neighborhood and region's future? No, his book is a scholarly work written for other scholars to whom only the purest cerebral problems have sufficient elegance to merit attention. Until Isard cares more for the hodgepodge of space we actually

live in, perhaps in a promised second volume, let's not give *him* more space than these two paragraphs.

### Practice and Philosophy

For those who like theory without much compromise in rigorous analysis but with practical application and philosophical implication, August Lösch's *The Economics of Location* may be the book. Lösch wields equations and diagrams with competence and yet indulges in frank expressions of personal philosophy and even speculates on dilemmas of two-by-four policy. Writing in seclusion, ill, and in official disfavor during the Third Reich, Lösch was unembarrassed by the scholarly pooh-poohs that his lapses from rigor might some day call forth. He is thus in the tradition of Adam Smith, who had only general readers, and Alfred Marshall, who tried hard not to shut them out. Or perhaps he assumed that scholars are themselves general readers and, under favorable conditions, citizens and perhaps even missionaries. Why else would he write such passages as the following?

A good mayor is proud of the *government* of his city, not of its growth (p. 332). Not in explaining that which has grown, but where man is himself the creator, lies the real sphere of applicability for the laws of nature and of economics that he has discovered (p. 359).

It would be dangerous to conclude that what is must also be rational. . . . No! The real duty of the economist is not to explain our sorry reality, but to improve it. The question of the best location is far more dignified than determination of the actual one (p. 4). It is not true that man must supply the world with an organizing principle! It already exists, though in human relations it functions automatically just as little as man acts morally of himself. . . . As to economic equilibrium this means that in order to guide his activities he needs insight into the conditions of this equilibrium. This is especially true

for the lawmaker, since all others are bound by his precepts even though unable to perceive their rationality. What matters is that statesmen shall act correctly; the comforting assurance that all will come right of itself is no longer granted us. Actually they need plan little, but it is essential that this little be planned with economic insight (p. 93).

Every choice naturally gives the impression that the greater utility has been selected. But why, then, is there so often pain at having to forego one possibility after another preferable one has been chosen? We should not feel this distress if the case were merely one of deciding between two and four units of utility, as between coins (p. 225).

If everything occurred at the same time there would be no *development*. If everything existed in the same place there would be no *particularity*. Only space makes possible the particular, which then unfolds in time (p. 508).

When the English translation of Lösch's book appeared, a reviewer placed it in a class with Keynes' *General Theory*: a book with a few novel ideas that appear utterly simple once popularized, yet loaded with significant, but not obvious, consequences. (Stefan Valavanis, "Lösch on Location," *American Economic Review*, September, 1955, p. 637). Isard calls it "monumental" (p. 43), but then discovers "severe limitations," "anemia" and "inconsistencies" (pp. 48, 49, 271). As might be expected, critics of Lösch have rushed past the hundreds of pages intended for the general reader and have swooped down on his most novel contribution. This is the idea, presented with simple equations and hypothetical maps, that any given economic activity would be most profitably arranged on a perfectly homogeneous plain in a honeycomb of regular hexagons. In accordance with transportation costs and economies of scale, the hexagons would vary in size for different industries. If the different nets of hexagons have one point

in common, the metropolis, they can be rotated about this point to create a cogwheel pattern of heavily and lightly industrialized regions, which is also the most economical arrangement of industry in space. Thus regional, as well as urban, concentration of industry does not depend on accidents of history and geography, but is rational.

Greenhut and Isard both criticize this model for not being sufficiently general to explain all rational locational decisions that have actually been made. Greenhut first calls Lösch's theory "clearly inadequate" (pp. 263-64) because the surface of the earth is not, in fact, homogeneous, a comment which does not merit further comment. Greenhut's other point is that strategy under conditions of uncertainty may lead to locational choices by firms that result in other than separate hexagonal markets (pp. 269-70). He scolds Lösch for assuming either central planning (which is vile) or perfect knowledge (which is not granted to mortals). In other words, Greenhut believes that Lösch should have explained "our sorry reality" instead of pig-headedly doing the reverse and contriving an equilibrium that is optimum but not automatic.

Isard grants Lösch his assumptions and concentrates on internal difficulties of the model. For example, he wonders about the consistency of postulating a uniform density of the consuming population in the face of regional concentration of industry (p. 271). He believes that additional equations should have been added to the model involving the optimal location of consumption and that commodity and factor markets should have been interrelated via utility and

production functions to produce a true general equilibrium system (p. 48). All of this is legitimate, but finally Isard. (of all people!) in a footnote twits Lösch for lack of realism:

The extreme difficulty met in working with hexagonal forms only and as a consequence, the need to reshuffle constantly the sites of production . . . strongly suggest that the hexagon is a pure concept much as is perfect competition. The hexagon loses much of its significance as a spatial form once agglomeration forces are admitted and, as a logical outcome, inequalities in population distribution recognized. In general, non-hexagonal forms are more consistent with the full interplay of location forces (p. 274, n. 17).

But when it comes to realism, it was Lösch who addressed himself to many issues other than general equilibrium and who tried to illustrate his points with statistics and maps. A large proportion of this empirical material is of American regions, both because of the availability of data and because historical and political factors were less important than in Europe in determining economic location.

### Exploration and Public Policy

But what about Hoover? There is no equation until the last page of the appendix. A few geometric demonstrations, of course, but also numerous maps of land use, market areas, concentration or dispersion of industry, and transportation networks.

Still location theory is covered well by Hoover, one factor at a time, and excursions into the logical labyrinth of reciprocal interactions are few, especially when the practical value appears doubtful. His analysis nevertheless explores transfer and processing costs at various locations thoroughly. However, the monopolistic advantages which a shrewd location may

enhance are slighted. Given the "enlightenment and inspiration" which Hoover claims to have drawn from Lösch (p. v), this neglect is surprising. Perhaps the topic of monopolistic control in one's immediate proximity was not fully treated because doing so without mathematics is difficult and because good illustrative empirical material was not available. But how many businessmen ignore the possibilities for enhancing profits in this manner?

Hoover does not press his analysis to a general equilibrium theory because of a self-imposed restriction on technique of demonstration and because he recognizes that "the world is full of change, necessitating a constant readjustment of patterns . . . and many practical problems . . . due to difficulties and conflicts of interest in the process of adjustment" (p. 145). Halfway through the book he therefore drops the static assumptions, and considers the role of business cycles, trends in population, resource exhaustion, and technological change on industrial location. Not only new growth but locational pathology, lagging and stranded areas, and urban blight, are considered. There is a discussion of political boundaries which relies heavily on Lösch, and this is followed by five concluding chapters on public policy. In general, these policies are viewed in terms of their long-run effects and are considered justified if they promote flexibility in the economy yielding benefits greater than costs. Among the issues discussed are land use, trade barriers, subsidized emigration, stability through diversification, and national security, all in a pro-and-con manner. Greenhut considers

Hoover's analysis "penetrating" and "well-developed" in places (p. 19), and Isard has a polite footnote which concludes, "From the standpoint of balance and sound judgment Hoover's writings are the best" (p. 30, n. 21).

### Conclusion

That's all I have to say about the five, and all I'll let them say about each other to maintain decorum. We economists are proud of the way competitive capitalism has forged industrial capacity for society and of the delicacy with which markets pace a galaxy of activities. But we prefer to see the results on paper or inside our homes and offices than through the window on land. For down the street are billboards, smoggy congestion, soot, clutter, tawdry gasoline stations, used car lots, and, on the other side of town, slums.

Lösch, who was indulgent toward planners, wrote, "the actual economy attempts after its fashion to solve the equations for location by continuous trial and error, and thus is able to take into account much more completely the interdependence of all factors" (p. 352). No one disagreed more strongly with this position than A. C. Pigou, who for decades attacked Keynesian policy-makers and trade unionists because they seemed to impair the functioning of national competitive markets:

It is as idle to expect a well-planned town to result from the independent activities of isolated speculators as it would be to expect a satisfactory picture to result if each separate square inch were painted by an independent artist. No "invisible hand" can be relied on to produce a good arrangement of the whole from a combination of separate treatments of the parts. It is therefore necessary that an authority of wider reach should intervene and should tackle the collective problems of beauty, of air and of light, as those other collective problems of gas and water have been tackled. (*The Economics of Welfare*, London, 1933, ed. p. 195.)

## READING FOR BUSINESS AND PLEASURE

### *Company and Community*

Much has been written recently about the necessity of good public relations for a successful business organization. Most of these public relations activities have been aimed at the consumers and stockholders of the company, while all too little attention has been given to what might well be considered the primary public of the business organiza-

tion: the community in which it is located. Though some attention has been given to parts of this public (especially the workers, through their unions) very little has been done in the way of studying an overall integrated community relations program. *Company and Community*, by Professor Wayne Hodges of Cornell's School of Industrial and Labor Relations, is an attempt to satisfy this need.<sup>1</sup>

The book is designed primarily for industrial executives and other practitioners of community relations. The

1. Wayne Hodges, *Company and Community*, New York: Harper and Bros., 1958.



author has attempted to select the community relations problem areas which, in his opinion, are of greatest concern to both company managements and industrial communities: financial contributions in the community, public school relations, air and water pollution, labor relations, and attraction of new industry. The book is, in effect, an empirical study of company-community relations in the Syracuse, New York area; it draws heavily on the experiences of the General Electric plant in that city.

The first three problem areas discussed, company contributions to and participation in organized charity campaigns, air and water pollution and industry-school relations (the last dealing more specifically with industry participation in the solution of vocational education problems), although limited in scope, are perhaps representative of the types of problems commonly faced by companies in industrial towns.

The last two chapters deal with strikes and community relations, and plant sites and plant communities. The analysis of the effect of a strike on community relations is a detailed study of the 1953 strike of the I.U.E. against General Electric. During this strike General Electric took extensive advertising space in local papers with the hope of winning community support for the company and causing a split between workers and union leadership. Hodges analyzes the effect of this publicity on the workers and the community in general. While the positive effect (from the company's standpoint) of the publicity on the workers is evident, Professor Hodges is unable to show that the publicity generated

any community pressures toward settlement of the dispute. In fact, his analysis seems to indicate that a community reacts to a strike only if it is hurt economically by it or if it is outraged by some violent act.

Discussion of the sociological-psychological aspects of plant location begins with the warning that community relations men may "hypnotize themselves with the phrase 'Better Business Climate' into believing that the physical and economic aspects of factory sites no longer are very important." The author then goes on to discuss some of the non-economic aspects of plant location. In the course of this discussion his enthusiasm seems to lead him to fail to heed his own warning. He analyzes the methods by which various companies appraise "non-economic" business climate while never recalling that these considerations are, at most, of secondary importance in plant location decisions. While it may be true that "progress and innovation will make industrial geography more flexible," economic considerations will continue to predominate. To the extent that progress equalizes economic attractiveness, business climate will play a greater role.

In spite of the shortcomings previously mentioned, I would recommend this book to those interested in the field of community development. It is non-technical and well written and provides valuable insights into the problems involved in company-community relations.

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*The Economy, Liberty and the State*

One of the most challenging problems in contemporary political economy — a discipline not sufficiently recognized or cultivated in American academic life—is the comparative study of different economic and political systems, with emphasis on the relationship between economic achievements and the liberty afforded to individuals and groups. Such study, if it is to be meaningful, must combine careful, systematic scholarship with judicious detachment and the ability to develop empathy with different cultures and political-economic systems. Most important, systematic comparison of different social institutions calls for intimate acquaintance with the concepts and insights of economics and political science. There is a wealth of fascinating questions that can be asked in connection with such studies.

The book under review,<sup>1</sup> which the author tells us is the capstone of his career, purports to deal with problems of this nature, but does not make any substantial contribution toward answering them. In effect, the book is a pompous and tedious editorial of more than four hundred pages, devoted to the hackneyed thesis that private enterprise is “a good thing” and that governmental control over the national economy is bad. This opinion can doubtless be supported by a wealth of good arguments. But they would have to be better than the rambling and superficial musings in the volume under review.

Professor Hoover's basic thesis is that classical capitalism — he cannot apparently make up his mind whether or not it ever existed—is most conducive to the flourishing of liberty, while the “extension of the power of the state” (whatever that means) is a threat to liberty. Any serious scholarly work would at the outset have sought to define such terms as *liberty*, *state*, and *power*. But the author, ignorant of the fact that these terms are vague and controversial, has not done this. Moreover, any author so nostalgic for pure, old-fashioned capitalism as described by Adam Smith and other “classical” economists will have to make perfectly clear how closely he thinks the Adam Smithian model conforms to any actual economic system of the past.

The more important statements in this book are as vague as they are superficial. Many of them blandly dodge the most ticklish intellectual issues. Others are most bold in generalizing on all and sundry matters, including even the subconscious of the Soviet population (p. 102) without being supported by either argument or evidence. The wisdom of hindsight is used with great abandon; and many important points are weighed by the grossest bias. Examples are too numerous to be adduced.

These biases, in turn, are based on naive beliefs and preconceptions which few scholars take seriously, but which he presents as golden truths, without examining their validity. For instance, Mr. Hoover blandly ascribes selfishness to public officials, and public spirit to corporate managers (p. 342), so that he can state that the threat of irresponsibility rises only when industry is nationalized (p. 344). He

1. *The Economy, Liberty, and the State*. Calvin B. Hoover. New York: The Twentieth Century Fund, 1959.

repeats the old chestnut that the danger to liberty lies in the power of the *executive*, apparently unaware either of the incidence of legislative tyranny or of the inextricable mesh that makes it impossible to distinguish between the Executive and the Legislative branch.

Hoover's descriptions either of capitalism or of the other systems that he has considered are grossly inadequate. He appears to see only one major difference between a *laissez-faire* economy and socialism, namely, the inequality of reward under the former, the proportion of the gross national product withheld from the consumers or from investment by either the capitalist or the "state." This completely overlooks the fact that a socialist economy *functions* differently and is able and unable to *accomplish* different tasks. As for capitalism, its ability to perform adequately is hardly examined.

Although Mr. Hoover has studied the Soviet system for many years, he shows little familiarity with the literature of the last ten or fifteen years dealing with Soviet society. A number of basic works on the functioning of the economic system, including macro- as well as micro-economic studies, are not mentioned even in the bibliography. His essay on the Nazi system would earn some undergraduate an "A," but is so unsystematic and superficial that it has no place in a scholarly contribution.

For these reasons, Professor Hoover seems unable to understand the successes and failures of the systems he examines. The successes of the Soviet economy are seen as a miracle which

"almost passes human understanding" (p. 83). Conversely, classical capitalism is seen as a nearly perfect system. Why crises "at times" occur is not explained.

At the end, Mr. Hoover launches an astonishing tirade against "the intelligentsia of the West" (which presumably does not include him), whom earlier in the book he had already scored with insufficient qualifications for having supported communism (pp. 121-122). His argument runs about as follows: The greatest danger to liberty lies in the fact that the intellectuals do not support capitalism. He adduces weird arguments to explain this alleged treason of the intellectuals. Some of these arguments lead him onto thin ice; for instance his complaint that it is difficult to convince intellectuals that capitalism, old-style or new, functions in the public interest. Since he assumes however, that it does, why does he not try to convince the intellectuals? He further hints that intellectuals prefer Soviet Russia to the United States because they find "authority, prestige, and a privileged standard of living more than adequate substitution for general liberty." Most fantastically, he hints that public opinion in the United States is hostile to capitalism because the media of communications are heavily influenced by intellectuals opposing our social system. (pp. 389-390)

The book, published under the auspices of a well-regarded foundation, offers nothing of value either to the academic world or to the lay reader.

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